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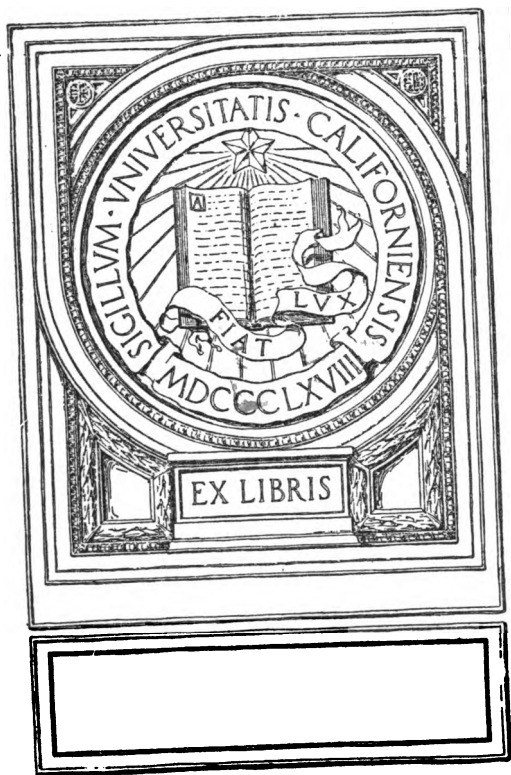
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# THE CREDIT MAN AND HIS WORK

BY FRANK EIMO LEWIS

and The American Accountants' Society, Inc.  
Manager of "The Business  
Man's Magazine"



PUBLISHED BY  
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1904



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# THE CREDIT MAN AND HIS WORK.

*Mar 11 1904*

BY E. ST. ELMO LEWIS

Fellow The International Accountants' Society, Inc.

Managing Editor "The Business  
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To  
**Elmer D. Beach**  
My good friend and counsellor, such  
of this as is mine, is  
dedicated.

—*The Editor.*



*"Credit is a transfer of commodities involving the return of an equivalent at a future time."*

—Laughlin.

*"Credit has done more a thousand times to enrich nations than all the mines of the world."*

—Daniel Webster.

*"Credit is the greatest wealth to everyone who carries on commerce; for credit, though it is not productive power, is purchasing power."*

—John Stuart Mill.







### **Before Reading This Book.**

**T**O the cocksure and self-sufficient, young or old, the following pages will appear didactic and dogmatic. The editor trusts, however, that to the more open minded, they may be suggestive of practical ideas and methods.

The editor has aimed to produce a book that shall neither be a fine spun subtilty dealing with the hair-splitting doctrines of finance nor a rambling memoranda of inconsequent anecdotes.

Modern commercial credit is an evolution of nearly six thousand years. As such it is well for the credit man who would get at the very vitals of his work—to understand something of its history.

As the laws of human nature are but laws of evolution, and as the law of averages is but the striking of a balance between what nature will do and what she will not do as governed by precedent conditions, and as credit is based on law of commercial averages it is well to know how these averages are struck in the world of finance as expressed in the business of banking. Banking being the purest expression of commercial credit, is treated as the denominator.

From the historical and theoretical, if you will, side of the subject, to the practical applications of these theories as seen in every day life, is an easy and acceptable progression. On the practical side it is not the object of the book to give lazy incompetence a cut and dried system by which to accomplish an end, but rather

to afford the alert intelligence an opportunity to appreciate the principles in practical use.

In writing the editor has conceived those facts to be self-evident that have been accepted by the best writers and performers for the past six thousand years. He is fully aware that the deductions he makes may run counter to the thoughts and convictions of capable men, yet he is not discouraged at such a prospect.

That he who finds all men agreeing with him may be assured that he has written nothing worth while is so axiomatic that it requires no elucidation here.

If all men were to disagree, proves nothing but that there was something to be gained by discussion. All this may argue to the superficial that the present editor apprehends a great divergence from his conclusions and views and he is thus preparing a neat crevice in the wall of his defense through which he may neatly and quickly elude his critics. On the contrary he suggests to his intelligent commentators that the mere fact of their differing with him he will support with as much equanimity as he may be able to summon, but he confesses to a certain keen curiosity as to the points on which they choose to differ. He feels that if he can get them not to dwell upon his acknowledged lack of mastery of the subject, but to discuss the principles he has endeavored to suggest and explain, this little book will not have been born in vain, and the labor which its birth occasioned, well repaid.

—*The Editor.*

## CHAPTER I

### A Few Things a History of Credit Teaches

**A** HISTORY of credit is a history of trade. We may say there was always a time when one man had more of something than he could use to his own advantage, and when another had not enough of that particular thing for his own enjoyment.

In the beginning man stood upon his own feet—alone, apart—the individual. Society as such was unknown.

When the individual reared children he became sociable; as the generations multiplied about him, his children's children became a family—a tribe or clan, the name does not signify. As time progressed the family ties loosened on remote generations, and they intermarried and drifted into close relations with other tribes and clans.

Communal good was the individual good in that older day.

As Blucher points out in his *Industrial Evolution*, "As to sustenance almost a community of goods prevails among members of the same primitive tribes. It is looked upon as theft if a head of cattle is slaughtered and not shared with one's neighbors, or if one is eating and neglects to invite a passerby."

In such a state of civilization trade had little opportunity to develop positive ownership, as everything was the property of everybody.

Spencer says in his *Sociology*, "Barter began not with a distinct intention of giving one thing for another thing equivalent in value, but it began by making a present and receiving a present in return."

We see the survival of this custom in our times, i. e., the *lagniappe* of the New Orleans grocer, who gives an extra apple in the peck—the coffee and cigarettes of the Turkish merchant—the universally ingrained desire to get something for nothing.

From purely voluntary giving to compulsory giving is a natural progression.

The stronger party gives gifts, the weaker, knowing what is expected, gives more valuable ones, and as Giddings says in his *Principles of Sociology*, "this disguised combat proceeds until the stronger party gets the best of the bargain, or until the weaker party reduced to a degree refuses further and fights."

By and by it was natural for the trader to have something for which none had an immediately acceptable equivalent. There could be no trade, unless one thing occurred:

*The owner would trust another until some future time for the acceptable equivalent.*

That was the origin of credit.

But this trading or bartering of one thing for another was found a most cumbersome and unsatisfactory method.

When cities were established, the citizen had to live, but he could not live on the products of the city.

He wanted meat, bread, produce, raw materials. The country man had these things, but he wanted clothes, his wife trinkets, boots, etc.

They met in the market place to trade.

Here again the limitations of barter became apparent. The necessity for a common acceptable medium of exchange—some one thing that traders, buyers and sellers

alike, would accept as standard, as of common usefulness at any time, gave rise to the use of a **standard medium** of local significance. Where wool was in constant demand, sheep or goats were the standard—where weapons of offense and defense were in constant use, as in times of war, spears and shields were the denominator of price, i. e., a measure of grain was worth so many arrows and so on.

It can be readily appreciated that such conditions could prove satisfactory only where the trading was confined within certain geographical lines. This is more completely realized when we consider the commercial rise of Phœnicia. She of all the ancient world was the greatest commercially. She carried barter to its utmost refinement through manufacturing her surplus of raw material and bartering it with neighboring tribes for other raw material, taking profits in additional material. Her merchants penetrated the most inaccessible parts of the primitive land and her sail ploughed the farthest reaches of the known seas.

As her trade increased her merchants early realized the value of an interchangeable standard of value, for it became impossible for her to handle the total of raw material in her total of manufactured product, and her merchants cast about for a commodity that would not deteriorate through age and yet be acceptable wherever her commerce developed.

Social evolution makes constantly toward fixity of values, towards rigidity of processes and principles.

In a widely scattered and differentiated commerce it was impossible to take commodities of a perishable nature far enough to trade them for other products necessary to successfully handle domestic products.

Wool was of little use in warm climates—sheep and cattle died on long journeys—the transportation of cereals was a dangerous and expensive undertaking. The use of the precious metals as a medium of exchange early at-

tracted the attention of the Phœnician and Babylonian merchants.

Gold and silver and copper were comparatively easy of transportation. They were everywhere acceptable as a medium of exchange and barter.

In Babylon we find the remains of contracts written on clay bricks in terms of gold and silver, and these contracts were used as collateral for obtaining loans, just as contracts are used in this day.

We are told that banking flourished in Babylon in the reign of Sennacherib, 700 B. C., and the House of the Egibi was one of the most noted, enduring for five generations. Lee in his *Historical Jurisprudence* speaks of the Phœnician merchants who carried on a banking business, changing money, loaning money, receiving deposits and in turn loaning these deposits on commercial enterprises.

The word bank comes from the Latin *banc*—table, and arises from the practice of the money changers sitting at small tables in alcoves about the Forum, rented to them by the Censors.

Banking was the earliest and still is the simplest and purest credit business. Originally the banker accepted deposits of coin or bullion at its bullion value and the merchants of a community then arranged their business so that buying and selling was simply a shifting of accounts from one to another on the bank's records.

In Venice this was originally the method, much as is done by our modern clearing houses.

Deposit banking subject to check undoubtedly started in Babylon, and the reference works show that the same methods were in use in Rome and Greece, and in Sicily in the fourteenth century. It does not say, however, that anything but bullion or contracts in bullion were acceptable as basis for such transactions. This is worthy of note as will appear later.

The system by which English and American banks loan their credit and not their actual funds, is the product of a comparatively recent evolution. In this way

vast sums appear on the deposit accounts, when in reality the unpledged surplus may be represents the merest trifle of the total.

The greatest danger in this lies in the liability of the banker to loan his credit on security other than marketable commodities. The difference between what a banker is obligated to pay and what he can realize on the goods back of his loans is his real profit.

If he sells more credit than he can redeem on demand he fails to meet his obligations.

Insofar as this applies to commercial transactions between firm and firm trading in goods, every concern doing a credit business is doing a banking business. A great many theorists have endeavored to prove the fallacy that a bank might grant an indefinite line of credit so long as it had a debtor who had goods. The absurdity of this lies in the fact that no credit is good unless it is readily exchanged for an acceptable equivalent on demand. A glance at our own financial history will readily prove this. Of this phase of the question, however, more presently.

In the old days we find that coins as such never rose above their bullion value, that the stamp was originally used by refiners and houses simply as an attest of fineness.

Without entering into an extended discussion of the subject of money it is well for the creditor to understand something of the history of the common denominator, and to understand as the denominator fluctuates so the value fluctuates.

It takes *five-tenths* to equal *one-half*.

Gold is written large across the history of the human race.

Six thousand five hundred years ago Egyptian kings treasured it among their possessions. Babylon measured the wealth of the world by its stock of gold.

The Attic shepherd stretching the fleece across the mountain stream caught the golden grains as they fled to the sea.



Rome conquered the world for gold.

Columbus discovered a new world for gold.

Why?

Because gold could buy anything from crowns to crumbs in any country.

With this wizard's wand the world became a place of activity and security.

Originally man tried to put by a store of gold.

But hoarding was an unprofitable business. Hoarded gold was dead gold—it gathered nothing but dust, and was a menace to its owner, much as the single talent to the man in the biblical story.

When loaning took the place of hoarding banking credit came into life.

Loaning only became possible, however, when society became more stable—when the individual ceased a nomadic existence and settled down.

Wealth became greater in the hands of the more capable and shrewd. Such realized that hoarded gold was dead gold and hastened to loan their stock of gold on approved collateral, expressed in instruments of express promise to pay.

It was still barter to a large extent—for gold was loaned at its bullion value.

In all the contracts, as we do now in this modern era in deeds, mortgages and bonds, the weight and fineness of the gold was specified. This was necessary because as gold was a universal standard of wealth it became an object of universal desire. As one of the values of gold was its ease of transportation and handling, and because its value could be changed by alloy to a degree, it became necessary to protect its fineness by some acceptable device. This condition gave rise to the coins, i. e., pieces of metal on which the state or the banker impressed a sign attesting to a certain weight of pure gold.

The money changers derived a profitable income from the wide diversity in value of these different coins; and

through the constantly varying exchange value of the different metal coins, governed by an equally varying supply in various countries.

In 1609 the Bank of Amsterdam was founded with the special object of giving a certain stable value to the currency, and in order to do that bought all the foreign coins in circulation at their bullion value and recoined them into the currency of Holland, at the same time enacting most severe penal laws against the practice of "clipping" and "sweating." The Bank of Venice also issued its own currency against foreign coin at the latter's bullion value.

We find in every commercial country the laws were early invoked to maintain the purity of the gold unit. A writer quotes Mommsen as speaking of the "puzzling exception" of Rome to the general use of gold as a medium of exchange, but the national treasure was expressed in gold.

Gold became the universal standard.

As it became the standard and trade increased and became universal, prices standardized.

Silver being more difficult to obtain from the ore than gold which is often found in the pure state, as Professor Ridgeway points out, for a time was more highly esteemed than gold in some countries, as in Egypt.

But to maintain a stable currency it is necessary to have an adequate supply.

Even when the Phœnicians largely augmented the supply of silver from Spain, and thereby vastly increased their wealth, it had no permanent effect on the commercial history of the world, for we find it gradually sinking in exchanges, constantly varying, while gold maintained its equilibrium of purchasing power. In a single century of the Middle Ages Mr. W. A. Shaw shows in his *History of Commerce*, France changed the ratio between gold and silver "more than one hundred and fifty times." "In 1359," Mr. Aldrich says, "the price of the Mark of silver in *livres* was changed twenty-two times in France, all the

way from seven to one hundred and two, then dropping back to eleven in the space of ten days."

This condition gave rise to money famines in one country and money gluts in another. When silver could buy more gold in France than it could in England, the latter's merchants exported. It was the same throughout the civilized world. The struggle to keep a fluctuating metal on a parity with a fixed standard was the hopeless effort of those Middle Ages.

A fluctuating standard inevitably means high prices, for merchants fix prices to cover the purchasing power of the money they must use to buy raw materials or new supplies.

The money must be legal for payment of wages, therefore a money that may buy little is made to liquidate much. In this way the fluctuating standard bears most heavily on the wage earner who must receive money at its legal and not its market valuation.

If the writer dwells on the subject of money so long, he does it to clear the ground of another fallacy in relation to credit, i. e., that credit is necessarily money.

Money is but an expression of credit. Money whether it be gold, silver, copper or paper, is but a part of the mechanism of trade. Money has no inherent value, except as it is accepted by the world at large.

Commerce is too widespread, too intricately interwoven with the life of all countries for any of them to stand alone in maintaining in the face of history and the common knowledge that one thing is as good as another in the sense of money. Kings, Commons and Courts have tried to force a value on intrinsically invaluable things and society has thwarted them in every effort.

So gold has become the common denominator of price.

Gold is in universal demand. Its buying power is uniformly high the world over. Hence, if I am a merchant with goods in stable demand at a stable price, I may always obtain a loan on those goods to the per cent of a proper valuation. Normal commercial credit is credit

based on a marketable commodity at a normal valuation. It has been the same for 6,000 years.

This condition is of the very essence of normal commercial credit.

Credit based on any other thing than a marketable commodity at a normal valuation is abnormal, illegitimate and speculative, and has no place in a well conducted business.

## CHAPTER II

### What Is Credit?

**H**EREIN we shall find a confusion of many voices speaking, each in a different tongue," said the elder Hindu prophet of the creeds.

What is credit? is a question about which clings a war of words and seemingly interminable confusion of ideas.

We shall not attempt to untangle the mass of subtle intricacies into which pedantic hair-splitting may have plunged many of the disputants. Suffice for our purpose to quote several of the more important of those who have left an impress on our commercial writing.

E. Nasse, a German economist, says the essential of credit is "the transfer of the right to use property which effects."

Knies, another European, defines credit as an "exchange in which one party renders a service in the present, while the return made by the other falls in the future," which definition, as another remarks, Nasse criticises and gives one of his own: "Credit is the confidence felt in the future solvency of a person which enables him to obtain the property of others for use as a loan or for consumption." McLeod calls it "the present right to a future payment," while J. Laurence Laughlin of the University of Chicago in a recent monograph on the subject "Credit," defines it as "*A transfer of commodities involving the return of an equivalent at a future time.*"

Before we can with advantage proceed further with

a discussion of our subject, of a necessity we must decide what attitude we shall assume towards the vital act we are discussing.

If we are to differ, let us define our differences. If we are to agree let us proceed, knowing our agreement. If any illustration of loose thinking and loose speaking were needed we need hardly go farther than an attempt to get at an acceptable definition of credit.

We might quote thirty or forty other interesting and suggestive writers, but hardly to any additional purpose. At first blush, the average man will say: "What's the difference? If a man's credit is good, we mean we think he will pay our account against him." True, but what grounds have we for thinking so?

The whole structure of the business world is based on credit, ninety per cent of our commercial transactions being credit transactions.

What are the laws and the fundamental principles that make such a condition possible?

We can live without doctors, without the knowledge of the laws of medicine, but a great many more of us live a great deal longer because of doctors and because of a knowledge of the laws of medicine. Modern credit is founded on a law of commercial averages, but little understood. Let us talk a little while on the subject; set down what we have found out, and draw conclusions for the better knowledge of the commercial community.

Recently a banking journal of successful age, and aiming to instruct the youthful banker in the ways of scientific banking, in answer to the question, "What is Credit?" quoted a California professor at some length to the following effect, that commercial credit, in what he calls the subjective sense, is *"the confidence or trust reposed by one person in the ability of some other person to fulfill a promise at some future time."*

He then defines it objectively as follows: "Credit is embodied in the claims which are accepted by the creditor in payments." We do not think that it will require

very much analysis to show that neither one is a safe commercial definition. If credit, treated in any way were mere confidence, we would have it reduced to what Laughlin very aptly calls "a metaphysical abstraction."

It would seem that the learned professor had confused one of the reasons (and not the most important reason at that) for granting credit, for the thing itself. While confidence is always a part of all normal credit, yet credit is not by any manner of means confidence, any more than my reasons for talking comprehends the act of talking.

If the professor's views were correct one could have credit without using it, which is a *reductio ad absurdum*. Just as one could have sight without ever having used it.

This leaves us where we were before. Turning to the second definition, we seem to be in no better condition. If credit is embodied in claims, we are reduced to the absurdity of saying that credit is the expression of credit, in other words that a promissory note is credit.

The professor has confounded the instruments of credit with credit itself, which would be just as reasonable as to say that an order for goods was the goods.

It would seem to us that credit is a transaction, not a state of mind or a piece of paper or a book account. As credit is the act by which capital discounts the future, as Laughlin points out, so futurity is of the very essence of a credit transaction.

Looking upon credit as a transaction we see it free from most of the beclouding subtleties of discussion, and it becomes something we may readily comprehend in our everyday affairs.

It requires no great amount of common sense to arrive at the conclusion that the possession of property, marketable property, is the first and vital prerequisite of normal credit. As the thing which is transferred must have value in order to come within our discussion so the thing which is to be given must have value. If we give much for a promise to pay which is not collectable we

suffer loss, which requires a re-adjustment of values. The whole structure of commerce rests on the exchange of articles at a normal valuation, as will be shown later. The legitimacy of a credit transaction therefore, rests on the debtor's possession of marketable commodities. The element of confidence enters the transaction simply because all credit involves the element of futurity. That confidence, however, is but a part of the determining reasons by which we estimate a possible debtor's value to us as a credit risk. Confidence may be as so many will say, the basis of credit, but what does confidence rest on? This confidence must rest in normal credit on facts and figures not intuitions and fancies.

Confidence in a commercial sense must have a commercial foundation; it must be a thing of realities and substantial.

This phase of the subject is of vast importance and if credit is to have any scientific foundation apart from the science of accounts, it must be on a thorough understanding and comprehension of the science of economics and business methods, rather than upon an empirical mixture of infallibility and second sight.

Here is where the dividing line will appear between that large class of merchants who "take chances" and that more conservative element who stay closer to the basic principles of banking.

We shall, therefore, as may have already appeared, treat credit as a transaction—i. e., "a transfer of commodities involving the return of an equivalent at a future time," and we shall be much indebted to Professor Laughlin's monograph in our discussion.

Franklin said "Credit is money," and some have taken him literally. On the contrary, "Money is credit," but no doubt what he meant was "Credit is as good as money." Money is nothing but a denominator. As we pointed out in the preceding chapter, money stands in the place of goods, and money is money only when it is readily interchangeable for gold at its bullion value, i. e.,



a value determinable by the amount of goods it may buy.

Money sprang from the possession of goods; it is simply a medium of exchanging one kind of goods for another, as may more readily be understood when one sees how little the total amount of money in circulation bears to the total amount of credit, or to the total amount of marketable goods. Yet it is a condition breeding panic when the total amount of credit transactions is in excess of the total amount of marketable goods, again demonstrating that credit must stick close to goods at all stages of its development.

When a grocer in Burlington buys of a wholesaler in Boston he pledges his unsold or unpledged property for the repayment, by which he obtains additional goods with which to meet the demands of his customers and create new trade.

The manufacturer pledges his assets in the shape of unfinished product to his banker to obtain material wherewith to finish it, thereby making it of greater comparative market value. But the credit transaction is based on the market value of the present unfinished product and not on the value of the future finished product.

In both the grocer's and the manufacturer's instances credit was simply a method by which one class of goods was coined into means of payment sufficient to protect the capital invested from forced liquidation, i. e., into other goods needed to protect the value of goods already on hand.

What effect, however, did this borrowing of the wholesaler's goods have in the one instance, and the money from the bank in the other?

In the one instance the wholesaler debited the grocer with the amount of the invoice, and credited merchandise. The banker credited the manufacturer's drawing account with the amount of the loan and debited the Bills Receivable, reaping the profit of the discount.

The grocer debits his merchandise account and credits

the wholesaler. The manufacturer debits his cash account and credits his bills payable.

So the transaction balances all around. It has been a simple shifting of figures. If the grocer should fail to pay his account, the wholesaler's assets are reduced by so much while his liabilities remain the same.

If the manufacturer should default in his payment of his loan, the banker has to reduce deposits by so much and retain the amount in his liabilities.

This brings us to another matter of credit information, the deposits in banks. It is credit that swells bank deposits to enormous proportions in relation to capital. Every banker holds as little money as the law will allow, for as has already been shown hoarded money is dead money, and a banker makes his living and his dividends out of the money that works.

The actual amount of cash money in circulation is small.

In the past five years bank deposits increased \$3,500,000,000, and new corporate securities issued reached a total of \$10,000,000,000, while the total money in the country, paper and metallic, increased but \$500,000,000, or there were \$27 increase in deposits and securities for every dollar increase in cash.\*

In commercial credit from the purely mercantile standpoint, we may test the validity of a credit extension by the very same processes of reasoning.

Can there be a transfer of marketable goods or the expression of goods to an equivalent amount at a future date?

If it is based on mere paper backed by intentions, or by good moral character, or by sentiment, it falls outside of our rule of credit and becomes a mere speculative risk, hazardous and illegitimate.

Credit does the same service as money, but as it lies between individuals whose resources and liabilities call for special determination in each case, it requires most

exacting carefulness on the part of the one who is to determine the amount and character.

As property, marketable property, recedes from credit we find credit sinking in value. As gold recedes from paper money or from currency, we find it depreciating. Why? For the same reason that a purely moral risk in commercial transactions is a bad risk. Paper money or any form of currency is worth only so much of the universal denominator as it may be readily exchanged for. Credit is worth only so much as it may be readily exchanged for in marketable commodities.

To be a good credit risk, however, a man must carry a reserve of specie or instantly negotiable securities. A debtor may be "property poor," he is overstocked, i. e., he cannot turn his goods into money quickly enough to pay his obligations. As McLeod says in his *The Theory of Credit*: "In every system of credit there must be an ultimate reserve of specie, yet that reserve does not bear a constant, fixed ratio to the quantity of credit; but it mainly depends on the organization of credit; the more highly organized the system of credit is, the less is the requisite amount of the ultimate reserve of specie."

Credit never was intended to and never can, take the place of capital. Credit is simply a method by which capital becomes more effective. It cannot increase capital. It does, however, render it more effective. As a pulley increases a man's lifting power yet does not increase his strength, so credit reinforces capital.

Through the proper use of credit capital is turned into productive channels and away from unproductive channels.

Normal credit never inflates prices. It maintains a system of counterbalances throughout its operation. We must consider the total of those in business as a vast circle intimately connected through the financial system. Each of the portions of this vast circle are producers and consumers. Normally they will not produce more than can be consumed, normally therefore, there can be no

more credit than that for which there is marketable goods. This being granted, we can see no reason why normal credit should inflate the level of prices.

Suppose, however, A of the circle be given an abnormal credit of \$10,000, in other words, he is given from the supply of goods \$10,000, for which he has no marketable goods at a normal valuation to exchange. A false value is forced in proportion, because normal values have been disarranged, and liquidation is forced to wipe out the false quantity. As this liquidation is individual or national, we have assignments or panics.

This process here referred to as an individual may be equally true of an entire industry taken at a false valuation. Over-sanguine human nature may see greater value than events demonstrate is present. From being over-sanguine in one thing it is easy to be in many. The disease spreads. The community sees roseate promise everywhere, and the veriest "cats and dogs" become gilded with the glad promises of sure returns. Here is the place where sanity of judgment based on facts and figures about every element that makes for soundness of values becomes essential in the credit man.

He must know his collateral.

He must know what the goods are worth and what they may be worth. His attitude must be one of liquidation.

His credits must be based on marketable goods equivalent to his credit extension.

This brings us to the theses of the following pages, several items of which we hope to prove:

That—*If normal credit is a transaction by which goods are transferred in exchange for an equivalent at a future time —Then—It is the duty of the credit man to be thoroughly acquainted with his collateral:* (a) that the goods are saleable goods and that the demand is stable at the valuation, for demand makes the price; (b) that competition cannot affect the risk adversely, for competition fixes profits; (c) that the business methods are

such as to insure the continuance of patronage, for business methods effect price through the demand; (d) that the purchasing and manufacturing departments are meeting the demand to insure safe margins, for right buying and economy of manufacture is half of right selling.

He must know in terms of scientific reality and not depend on dreams or intuitions.

## CHAPTER III

### The Character of the Business—Patents, Schemes, Manufacturing, Jobbing, Retail, etc.

**A** MAN may have ability; he may be honest; he may have capital—and fail. Ability is at best a relative term. Ability like most of our English words is capable of so many shades of meaning almost antithetical in terms, that it is only the very careful reader who is not lead astray.

Business ability is considered to mean faculties of the business mind as differentiated from material conditions such as solvency. A man has ability in our sense who is able to sell at a profit the goods he obtains at an average cost.

That man's foresight in relation to the broader aspects of business, i. e., supply and demand—the chances of failure—the financial strength of possible demand, the status of the country or community trade, may be lacking in the keenness that makes for permanent success. Let it be understood now, as it will be dwelt upon later: it is not conceived here to be any part of the credit man's duty to act the part of a juggler who plays on the market at a moment's notice, playing at ball and toss with the kaleidoscopic changes of Dame Chance. It is he'd here that normal commercial credit rests upon a more permanent and less changing basis than the stock market.

But the wider foresight is needed in the debtor to whom we are about to extend a line of credit. An account must live, must be active, in these days of com-

petition, to be of any permanent value to a creditor. It is the credit man's sole aim to make and keep permanent accounts.

There are forces inherent in certain kinds of business that make for failure, that increase the speculative risk, and with these the credit man must be intelligently conversant. If a subtle distinction is made in the word "intelligent" it is none the less real and potent.

In this day of specialization where the credit man of a manufacturing concern sells to a wide range of entirely dissimilar lines, instead of in the old days confining himself to the wholesalers and retailers of his own line, he must have a certain catholicity of appreciation and knowledge that is possible only in a man of intelligence and experience.

No matter how capable the managers may be in the ordinary routine of business affairs, or how effective may be the first efforts if the business has not the support of a willing public, the doors will close. Therefore, in all new things, the credit risk must not anticipate the success of the venture but concern itself only with its present worth.

There are a great many lines of business that call for the most vigilant oversight at the hands of the credit man. Consider a business founded on patents.

What is a patent?

Legally it is a government license to the exclusive ownership of a device.

Cynically it is a right granted by the government to a man to be sued or to sue—to fight over the ownership of a device.

A patent is no protection commercially speaking. Legally it is, but like many things in the law the right is placed in peril by its very strength.

If a patent is any good it is almost certain to be infringed, and the government gives you the inestimable privilege of spending your own money to prove the license it gave you worth the paper it is written on. Of course,

you may get damages, but damages on paper are "another story," as Kipling would say, in the collecting. The government simply says that its experts can find no other device previously patented that seems to interfere with yours. Then it throws you among the wolves. If you have money and a disposition to fight you will probably have a strenuous time and get your money's worth. If you have neither you will probably have the satisfaction of seeing your good idea appropriated by someone else and the vicarious pleasure of seeing it make money for someone else.

The patent rights and success generally go to the deepest pocketbook if they have any commercial value. Without any reflection upon our forms of justice, the consensus of opinion is that the law in its civil application at least, in a large percentage of instances has become a matter of such delay and expense that it is no longer so much that justice is served as it is the form of law through which justice is presumed to act. For the past half century the legal mind has been most active in devising ways to prevent the right thing being done, because it has not been the right that needed lawyers, but wrong. Wrong fattens on the law's delays, while right has grown lean and hungry and turned to the employment of means by which legal procedure might be rendered unnecessary rather than trust itself to the tender mercies of its subtleties and sinuousities.

The credit man should carefully consider the elements of chance and in a business based on patents pass the item of patent rights in a statement as of no import at all. He should understand, apart from the possibility of someone infringing the debtor's patent that the debtor may be infringing, in which latter case the cash reserve, capital and assets might be wiped out in plenary damages, leaving the erstwhile comfortable margin a thing of dreams and yesterday. Where, however, a patent has survived the contests of its legal existence and has become an accomplished commercial asset through the



judgment of the highest courts, the case is altered, and it is on a better plane provided the protection of ample capital insures it against the forays of greedy buccaneers; or, it is still better protected through the exceptional character of the manufacturing and selling organizations handling it. A typical case of this latter condition is seen in the so-called monopolies. The Standard Oil Company may undersell competition and yet pay dividends because of its organization and resources.

The National Cash Register Company of Dayton, Ohio, is a patent monopoly. For the past ten years it has been protecting its patents by a constant series of suits against any and all comers, no matter how slight may be the infringement, yet that company's surest safeguard is not its patent papers, but the organization by which it manufactures cheaper and better than competition can, and through its highly organized sales department by which it has been able to overcome all competition. It is doubtful if it has collected a dollar from infringing manufacturers—we doubt if it has desired to do so. But it has driven competition out of the field it has selected for its own by a thorough organization and a well defined policy of "When you see a head, hit it," much as the Irishman did at Donnybrook. It is the history of all concerns based on patents—the Bell Telephone Company, the electric manufacturing concerns and the companies making all kinds of specialties, from young and struggling concerns having their fight for existence, to the time when they in turn become buccaneers swaggering over the world of business, seeking the weak and defenseless, the patented right is always in jeopardy. And the patent is always a bad risk except when backed by exceptional business ability and organization.

From this patent consideration it is but a step to schemes. Of these in this wide awake and inventive America there are thousands and more born and die in a day, as some summer insects to whom the seconds are as years.

We hardly need to say much about schemes—because for the purposes of commercial credit we will say a scheme is a plan or business conducted without goods or other capital. It may seem somewhat foolish for the credit man to talk to credit men and warn them against schemes. Yet we see constantly the speculative instinct rise to the bait of the schemer.

The promoter lives on schemes.

The 10 per cent a week man thrives on schemes.

Insurance of lives, insurance of property, were at one time looked upon as gambling of the worst type. They were called schemes. They are now considered the very essence of respectable stability.

The man who lives entirely by his wits must enjoy an enviable reputation in order to prove a good investment. A company that is coining money out of the circumambient atmosphere is open to suspicion and the credit man who takes long chances on such concerns will bear watching.

“Keep down to earth,” said the old farmer to his son.

It is a pretty good bit of advice to give the credit man.

Keep down to the earth—that is real—it is an earnest of security in hand.

What are schemes of ill omen commercially? asks the literal reader who wants concrete illustration and has no head for first principles.

The man who advertises largely in the newspapers to cure one of all manner of diseases for a few dollars.

The company who promises to pay 10 per cent on deposits of good coin.

The man who promises to make you wealthy through a small investment of your good money.

A scheme is the conscienceless application of an idea.

Test a man's business by what you would do. Would you put your name on it—would you want to be known in it? If you wouldn't how much less should you want

to put your money into it, because you must always face the possibility of your name going into the creditor list. Finally, a business without conscience is always treading near to the law that may wipe it out, and it does your own credit no good to have it known that you are gambling in commercial shadows.

The manufacturer has always been the favorite credit risk because it is hard for the commercial world to stray far from property. The manufacturer generally has to make an investment of a more or less substantial nature, and he cannot very well get up and leave in the middle of the night.

His weaknesses, however, are more difficult to gauge and more important to accurately estimate. His credit obligations are generally large in proportion to his capital investment. He is a long credit risk in proportion to other lines. He has to wait longer for his turnover and his monthly balances do not mean so much.

With him the larger business problems of supply and demand enter more vitally into a truthful credit appreciation. The credit man needs to know the manufacturer's business—but he needs to know a lot more than the business. He must know the outlook of the line and be able to size up the trade tendencies.

The jobber is the nondescript agent of the manufacturer and the retailer. Gradually he will be eliminated as a commercial force.

Originally he was a powerful factor in the creation of markets. When railroads were few and traveling and freights were high, he sent his men out into territories and sold it up with the lines he carried. He controlled the trade through special favors and long credits.

When manufacturers wanted money, they pledged output at a price to their jobber, who eventually owned them.

Gradually, however, manufacturers became salesmen, learned the value of owning the demand and the methods of advertising through the rapidly multiplying

press of the country, and saw the advantage of dealing with banks for their loans, and it must be confessed, said to themselves, "We might as well have that extra 10 per cent and make our own prices"—and so the jobber is gradually going the way of other out-of-date methods.

Eastern jobbers in many lines are going out of the market. In the South until she is thoroughly rehabilitated—and in the West until she has gained her full stature, the jobber will continue to exist and have a place, giving way in turn to the selling agent who will handle the sales department of several concerns who see an advantage to be gained in a guaranteed volume of output at an average market price.

The retailer presents many of the most intricate problems to confront the credit man.

The personal element is so subtly mingled with the financial and trade considerations that it is often difficult to make proper distinctions. Many—too many—retailers are incompetent and absolutely bad risks, and it is only the complaisance of the average credit man which keeps many of them in business at all.

It is the credit man's duty to his house and his profession to weed out the incompetents. The credit man is not a business doctor in a charity hospital. The main difficulty with the retailer—he is ignorant. He is either ignorant of his people, his goods or the commonest methods of doing business. Sometimes he is ignorant of all these things. That even such a one sometimes succeeds is no refutation of the statement but rather a cause for humility and prayer upon the part of all. In some sections where little capital and many workers have formed a community to civilize the land, the retailer sets up his shack and sells goods, just as anyone could. As long as the people stay and the work holds out, and no other retailer enters and the mails are delayed, such a man prospers and fattens—but such conditions are not normal. "Competition is the life of trade"—but not too much competition, says the careful man—just enough!

The era of cheap transportation and quick communication has produced the mail order house. One other thing has kept it alive—the poverty of brains of the small retailer.

He has persisted in believing that just because he was an Odd Fellow or a Red Man, or a Forester, or any one of a thousand other things, save a wide awake progressive merchant, people would come to him and pay him a fraction more for things they could buy of a house a thousand miles away. He imagined that because he had a thing people should come and ask him about it when the house a thousand miles away came to the people and told them about it in as interesting and attractive a way as possible.

The writer blames the retailer for lack of brains, probably that is an impotent and bootless censure, but during a period of twelve years in which he has visited nearly every town of 5,000 people and over in this country and over fifty of 2,000 and less, he has become more and more convinced that what the country retailer and the small city retailer needs the most is some good, wholesome advice backed up by the application of the financial rod in cases of bullheaded ignorance, about how to keep store and how to get business and keep it.

When an intelligent man, a partner in one of the principal stores of Springfield, Mass., will get up before his fellow merchants in a Chamber of Commerce meeting and in all seriousness ask an advertising man if he could guarantee results on a given expenditure in advertising, and then with equal seriousness say he had received no benefit from an hour's talk on the subject of Business Getting from a man who had been in the thick of the fight more years than the questioner could count since his last failure; it is pretty near time for the credit men of this country to obtain a permanent Commission in Lunacy to pass on applicants for retail credit.

It is the credit man's duty to make and keep ac-

counts. He makes them by his understanding; he keeps them by his unique helpfulness and consideration.

The credit man of the future will help the retailers to a better understanding of means and methods. He will teach them to buy sparingly but often, rather than largely and seldom. He will teach them to keep in closer contact with the supply. He will teach them how to use printer's ink with discretion and effect. He will know something of their people. He will teach them the cardinal principle of modern business.

*Trade goes to him who hustles while he waits.*

Educate the retailer. He needs it.

Let us turn to the agriculturist, i. e., the farmer. He is an anomaly—and only his personal friends look with favor on his credit. As a permanent credit risk he cannot expect much consideration except at enormous indemnifying profits. Why? His turnover is slow, twelve months being the average crop and live stock period, while sometimes it takes much longer to create a farm plant of any size.

The farmer's entire capital is placed in jeopardy of fire, flood, drought, pest, and his very success in growing may bear the market so that there may be no profit in his best crops. His greatest possible profit never makes it possible to show an average higher than the same money placed in the market for exchange.\*

This makes agricultural credits against crops of more than average peril. The result is that large percentages in discount must be enacted. In selling to the retailer dependent on the farming community it is interesting and of practical value to know the kind of territory he draws from.

If his section is prosperous he can be expected to be prosperous.

If the farm lands have a good depth of soil—if the climate is such as to give few extraordinary risks—if the shipping facilities are good—if the community is

\*(Money and Credit, pp. 121-122.)

progressive—i. e., has good buildings, churches and schools, it would appear that the physical environment of the case was prepossessing.

If a credit man cannot know these things from salesmen, he can get soil maps from the Agricultural Department—climatic averages from the Weather Bureau—shipping facilities from the Railroad Gazetteer—and census returns from obvious official sources.

In the South this state of the farming community has kept it in a constant condition of abject poverty. Storekeepers advancing materials and foodstuffs against future crops had to charge enormous profits in order to overcome the risk. In 1892, for instance, flour that could be bought in New Orleans for \$6.25 a barrel was quoted in the country districts at \$14.00 a barrel, when sold against next year's crop. The same ratio obtained in all lines. It was only when manufacturing enterprises came South to stay, bringing with them stable and ascertainable values that the money came to the South. Money got into trade channels and wage earners left the plantations and acquired cash capital, and capitalists took hold of plantations, and credit was based on plant in hand and not stock in prospect.

Look at Kansas mortgages and the woe and panics they caused. It has been the same the world over. Germany's agricultural mortgage banks have one by one gone under. Agricultural loan companies have succumbed with sickening consistency.

Yet our agricultural credits have continued and expanded. But it was possible only because the soil would stand the enormous drain of the indemnity profits. It has been this feature our critics have failed to understand when they pointed to the seeming anomaly of selling plows in America for \$14.75 that were sold in Australia for \$9.25. Here they were sold against a future possibility—there for cash on delivery.

## CHAPTER IV

### Organization as Affecting Credit: The Selling Office, Financial and Manufacturing Depart-

**T**IME was when the matter of a debtor's method of conducting his business was of little interest to his creditor. If he met payments more or less promptly—if he always presented a fair statement, the account was carried and no particular thought given to the subject of the debtor's methods.

Since the organization of local, state and national credit associations, however, the credit man has come to realize that the credit class have a certain community of interest that should work to a common end, i. e., of getting rid of the chronic dishonest and the persistent incompetent.

Today there is too much leeway given delinquent debtors making it possible for Jones to prove an arrant knave in Ohio and a model business man in Wisconsin. While it is not to its best interests for society to treat mere failure as a crime, yet we should make it difficult to be a dishonest failure.

To do this, to guard against failures, we must know our debtors better and more about our debtors' affairs.

In every other department of business we are realizing the value of information at first hand. We know what our men do, who they are, what they say, and how they do it. We know what our competitors are doing, and in many cases what they purpose doing.

We lay our plans and execute them to the further-



most limit for the ascertainment of the projects of every force that can interfere with our business, and yet we know next to nothing about the people into whose hands we place a portion of the capital and profits about which we have been so solicitous.

What does it matter if the stock is fairly valued if the manufacturing department is making it on too close a margin?

What does it matter if the credits are good if the men who are managing the finances are not good collectors?

What does it matter if the capital is sufficient for the ordinary concern doing the same average of business—if the concern is badly organized and cannot make the most effective use of the capital?

It is the worst mistake in the world to take mere figures as a criterion of future business.

Turning to specific difficulties that beset a credit man in the detail of organization in a debtor's establishment.

The manufacturing department offers the greatest field for suggestive observation. Hardly one manufacturer in a hundred knows what his product costs per unit. He knows he makes a book profit if he sells a year's product at a certain price.

The absolute lack of proper organization in the average manufacturing plant is at once bewildering and a source of thanksgiving to Heaven. No man can be a credit man for any length of time and not be a believer in Providence. He sees so much of the blind trust in Providence and so much of "the faith that removes mountains," and sees so many survive, that he becomes convinced beyond argument that there is indeed "a Providence that shapes our ends, rough hew them though we may."

The old time manufacturer and superintendent cry "red tape" when one talks system. They want to get the goods quickly and get the account on the books. They haven't any time for "methods of procedure"—

"system"—"red tape"—all terms of synonymous import to their uneducated intelligence.

Recently a system expert told this story of his experience in a factory:

The factory controlled the entire operation from raw material to selling. In going through this factory as a result of a careful investigation it was found: first, that the firemen were using too much coal in the production of the average horse-power, by the expenditure of a couple of hundred dollars a ton and a quarter of coal was saved per day. Second, in the weighing room where raw material was handled for consumption by the different departments valuable material was weighed in such a careless manner that one-half of one per cent of the total amount was wasted in the course of a year, entailing a loss of nearly three thousand dollars; the head of this department was receiving the munificent salary of eighteen dollars a week. Third, there was one superintendent for ninety men, who were supposed to be operating machines, no cost system or job tickets were placed on the jobs going through, but the men who were supposed to be working all the time were loafing an average of 7 1-2 per cent, thereby losing their own time and the use of the machinery as well. Fourth, in the finishing room where small parts were made, the same looseness of management was shown in that small parts were carelessly handled in burnishing and tooling with the consequence there was a waste of nearly three per cent. Fifth, in the plating department it took five men to do what another concern did with three men. Introduction of new machinery was recommended, that saved its cost by the discharging of extra men; and seven hundred dollars in one year was netted by requiring that the plating room should be put on cost of production. Sixth, in the packing room cheapness was the prime requisite with the natural consequence that many goods had to be replaced through imperfect packing, causing loss to the concern. The same saving of wages was in force in the

weighing room, resulting in disgruntled customers through loss of weight, and loss to the firm through over weight. Seventh, the cost department, which was run on the haphazard principle of having a system for each department which was in no way accountable to any other department, made no attempt to gain an accurate knowledge of the actual cost, but based them upon estimates by heads of departments, resulting in prices in many instances being too low and in others being too high. Eighth, there being no counter checks on the invoice clerks, wrong extensions and additions and incorrect copying of prices were made, resulting in the losing of customers and the loss of profits. Ninth, the sales department wanted orders and placed a premium on getting orders, with the natural result that salesmen promised anything to get them, relying on the well-known lack of policy of the house to get them through. Tenth, the head of each department was a king in his own household, with an absolute disregard of the rights of the heads of other departments, and through cheap intriguing, fault finding, and tale bearing to the general manager, kept the concern in a constant state of turmoil that resulted in driving away the best men and keeping those entirely unfit for the organization.

It may be suggested that this is an extreme case.

The writer has spent fifteen years in studying the business conditions of the business world, much of which time he has spent in systematizing and organizing different departments of different plants, and he has never yet entered a plant where some of the foregoing conditions were not prevalent, and he has no hesitation in staking his reputation on the assertion that he could find some of just such drawbacks as the foregoing in any plant in this country.

In a chapter devoted to the subject of manufacturing cost, some of the principles are laid down. The credit man who knows the cost of his debtor's product is in a

position to assist intelligently in the granting of a credit line.

A part of the cost of production is interwoven with the physical organization of the plant:

Are the buildings properly located and arranged?

Is the equipment up-to-date and kept in effective condition?

Are the employes paid a proper wage and are they in a state of reasonable content?

Are the superintendents efficient, and do they get the production per man power?

What system of checks have the factory on the use of the men's time?

Cost of production is purely relative.

The lowest competitor of quality makes the cost.

The rest must meet that figure sooner or later.

Turning to the financial departments, the systemless conduct of the average financial department is a wonderful thing to less complacent nations. Finances are run on a hit or miss principle in most houses. There is no accounts pay day in some—as a wag once said of a house enjoying a large trade—"They pay no bills before the 10th and none after the 10th, and give you an excuse on the 10th."

Does your debtor have a careful and competent accountant in charge of his books?

Does he think "he can get book-keepers for nothing if he has to pay factory hands?"

Does he seem to know "where he stands?"

What about his credits? Has due allowance been made for doubtful accounts, or is he one of the happy many who count everything good that once gets on their books?

The organization must be thoroughly competent in the financial department or figures will go wrong on which credit is based.

Office organization gathers the detail of the business and keeps the business facts and figures safe and trust-

worthy. All have known concerns whose office organization convinced them that there was absolutely no dependence to be placed on it. A systemless manner of conducting the entering and billing of orders; the answering and filing of correspondence; the gathering and collating of data vitiates to a degree the value of all the facts and figures that may be handed to you as a digest of the condition of such a business.

The organization of the selling force, weaving all the forces, human and otherwise, into a compact power for the making of sales, is vitally important, except where the output is handled through a jobber when he becomes of paramount importance, because you are then handling goods to one party to be made into other goods on which the third party is to realize and pay you through your immediate debtor. The result of this condition is that you should consider two credit statements and get information on two houses. The selling force, however, whether it be wholesale or retail salesmen, must have coherence, *esprit de corps* and knowledge. The house which cannot keep good men is not good enough for a lengthy credit. Men do not always leave a concern because they are at fault. In many instances they would be at fault if they staid.

The house which cannot keep men because men cannot keep their trade if they stay with it—the house which pays less than its competitors and is always working green men or black legs; the house which is always changing men or territories, is flaunting a danger signal in the faces of its creditors.

The house on the other hand which develops men—which is organized to throw every ounce of power into getting business and employs the best men to represent it and places business-like incentives before its men to bring out the best in them, is a house bound to sell goods.

## CHAPTER V

### Business Methods Affording Credit Data

**A** PART from the defects of organization and system comes the question of business methods as affording an opportunity by which to judge of the ability of the applicant, or the continued soundness of a risk already booked. A concern's business methods are the results of the personal characteristics of the management, and are a safe guide by which to gauge the soundness of principle, personal capacity and business acumen of the management. Business methods have a direct effect on business: they are the more or less fixed expression of a principle, good or bad, on which the business is run.

We confess to a certain dislike of the term "moral risk" as applied to all that part of a risk apart from the purely financial statement. It seems to us a misnomer, as the word "moral" has a purely ethical significance, dividing it from the standards of ability.

Morals, ability, experience are daily becoming of greater importance in granting of credit than the mere formal statement of assets and liabilities. Credit men recognize this and are governing themselves with increasing rigidity by the standards of right methods of doing business.

If a business man is slipshod and inattentive to the small details of his business, if he seems to let the business machine run itself with a happy-go-lucky faith in the general outcome, he will bear watching. Successes

are not built on the Happy-go-Lucky platform. It is no man's business what I do with my own money; how I conduct my own business. It is every credit man's business, however, what I do with his employer's capital, how I conduct the business in which his employer's capital is invested.

From a somewhat intimate acquaintance with auditors and accountants who have made a study of business methods we do not think we will be accused of exaggerating the true condition of things when we say that the majority of business houses have no properly kept books of account.

A great part of this is due to the belief on the part of business men that any book-keeper is a book-keeper. Another part is due to the notorious disinclination of book-keepers to keep up with the times. New processes, new lines, new conditions of market and production require new methods in accounting. Book-keepers must keep pace with these advances. That they do not in any general sense is daily reflected in the embarrassment of those who are morally certain they are solvent. We are equally certain that an equal proportion of business men do not know where they stand. They look at the trial balance and are surprised that they are worth so much, when they have to scrape to get the pay roll each week. Many concerns do not draw off a trial balance more than once a year, and even then it is nothing but a book-keeper's exhibit to show his books in balance.

The average business man has a contempt for mere book-keeping and leaves it to the underpaid clerk whose sole idea of keeping a set of books is that there must be a debit for every credit.

The average book-keeper considers a cost of production system a nebulous theory, or, if he introduces one it is a hodge-podge of senile practice that gives "facts and figures" without warrant in actual conditions or product.

To the vast majority of smaller merchants the science of "credit is based on confidence," with the result that if they "feel a man will pay"—if "he appears an honest sort of a fellow"—if he produces a statement (if by any chance he should be asked for one) showing a comfortable margin of larger figures on the credit side, he gets "trusted." Such a method of conduct just as naturally attracts a choice collection of dead beats to his assets, as a free lunch attracts the bum.

Another merchant will make a strong point of pricing. He has no set rule. If he needs money down they go, or he may put them up on a customer in a hurry, if his creditors are complaisant, up go prices and he waits for another prod. Such a man is always in hot water, between hot and cooling.

There are other merchants to whom an inventory is an annual picnic or a nuisance, either being detrimental to facts appearing in the statement. The inventory is a perfunctory attempt on the part of clerks kept after hours at the fag end of the year, to prove that the goods are there. The "estimated" part of such inventories constitutes the only fact in the case.

The inventory is an absolute necessity to the careful and conservative merchant. By it he learns what goods are selling rapidly, what are moving slowly, and through these facts he is able to decide what is good to buy and what is necessary to cut in price in order to make a quick turnover. The really up-to-date merchants nowadays keep perpetual inventories by which they can tell at any time the exact condition of their stock and the significance of its movement.

As proper insurance protection is absolutely essential to the desirable credit risk, the inventory is necessary. Too little insurance is poor business; too much is suspicious.

The average merchant is a poor correspondent except when he wants something. Business corres-



pondence should receive prompt, complete and comprehensive attention.

In the hurly burly of modern business the cry, "Cut it short" has lead to a mania for terseness that as a two-edged sword, cuts two ways.

The ability to cut it short is one that comes after long practice and much care, two things impossible to the average man.

Cutting it short has progressed to the point where personality has been sacrificed to form to such a degree that fifty letters from representative business houses will be as alike as peas in a pod. Cutting it short has produced more law suits than verbosity ever did, because cutting it short has left too much to be taken for granted, with the result that the easiest and most profitable construction was given.

Mr. Smith asks Mr. Brown if Mr. Green is an honest man.

Mr. Brown replies:

"Your letter of the 9th to hand. In reply I will say that in all my dealings with Mr. Brown he has been found honest and straightforward. Very truly yours, etc."

What were his dealings with Mr. Brown?

Did he ever have any dealings of a credit nature?

Mr. Smith wanted Mr. Brown to tell him this, but he didn't ask him and Brown conforming to business maxims cuts his cloth according to Mr. Smith's measure.

How many times today have you returned orders, or taken chances on filling others, simply because the mania for cutting it short has made your customers put down only what they had to and not what they should?

The ability to write a business letter—with personality, saying all there is to say, plainly and forcefully, is a rare ability, but none the less a requisite of the successful business. A man may not say what I want him to say, but it is a satisfaction for him to say something. The merchant who makes the excuse that a "letter got

hidden under a pile of correspondence so that it entirely escaped my attention," or that he "mislaid" it, or "owing to pressure of other business I have had no opportunity to reply," damns himself out of his own mouth.

In the first place he should have a system for taking care of his correspondence so that it could not be "buried;" if he mislays it I am troubled with the thought that he has little concern about my letters, anyhow; and lastly, he says that my letter is of so little importance that anything can take precedence over it. If the letter is about his account with my house, he is adding insult to injury and will bear the closest kind of watching.

Another merchant considers a request for a statement as an insult. If the request is made to a man who is seeking credit, there need nothing much be said. We shall deal with the statement, however, in another chapter.

We shall simply mention the man who claims overcharge, or underweight when pressed for settlement; the man who takes off the discount after the discount period has passed; another haggles over the interest on long accommodation; another countermands special orders after execution, and then tries to get them at a lower price. He intentionally confuses the description of small items in claims for overcharge, he persistently holds the odd pennies in a settlement; he postdates checks, sends remittance letters without enclosures, "forgets" to sign notes and checks sent in settlement, and anyone or all of a hundred other "straws" that show infallibly that he is tricky and unreliable. Such men pay more, because the credit man has to increase the selling price to protect the risk.

Another man wants to have his delivery made this month and his bill dated ahead. In other words, he wants your money for use in his business for as much longer than usual as the dating may mean. Dating ahead was a practice arising out of a condition of the country when our Southern and Western merchants

often had to buy in the Eastern markets and wait thirty and sixty days for the receipt of their goods, and could get local accommodation only when the goods were actually received. There seems to us little need for this device in this day of almost universal banking privileges and widely scattered manufacturing and wholesale houses. Here again comes in the necessity for the retailer's education. That he is commencing to realize the necessity to a certain degree is evidenced in the growth of cash wholesalers who are underselling the credit market.

These are the things that show ability and character through business methods. They should be recorded in the system of any credit department. They are worth more than any statement ever analyzed by an astute auditor.

## CHAPTER VI

### The Character of the Management; Private and Public Character

**I**F we should be governed by cold facts about the assets of an applicant for credit, we are not. Often it may be impossible to get at the cold facts in time to meet the demands of business-like treatment of an order. It is the present writer's judgment that good character will not take the place of good goods, good judgment, good systems, or any other element of good management. After a man has satisfied us that he *can* pay, it is our duty to find out if he will pay. We can best tell what a man will do by what he has done.

"Hell is paved with good intentions."

The history of the world is filled with the failures of those who had good characters.

Notwithstanding the profound emphasis placed on character by credit men, an emphasis presumably based on experience, yet of all the failures in 1903, but four and four-tenths of the total failures were Fraudulent Disposition of Goods and two and one-eighth per cent due to Doubtful Habits, in comparison with this fifty-three per cent of the total of all failures were due to lack of capital, ignorance and lack of experience, three qualities falling outside of all questions of character or morals, it would seem that the figures were against the character, and on the side of a careful analysis of actual conditions. Character is simply a side light

thrown on the moral risk side of a credit proposition. It is an important but minor consideration. We should separate the subject into sets of questions:

Private character.

Business character.

For one thing, we have little faith in the proposition that a man of loose private character can have a good business character.

Rotten at heart no matter where he is, is the whole essence of the case.

Some writers on credit lay great stress on their ability to read character, and as a result they lay great stress on character in the debtor. We have never believed in second sight and have mighty little faith in the mind reader. We know the shrewd guesser can tell by a man's physiognomy if he has certain obvious mental and moral defects. Let us understand now—the forces of deception keep pace with the power of perception.

To the man who believes that credit is confidence let us examine his processes of thought—he believes that a man will repay—but why does he believe? Is that question not essential? Because confidence *per se* is a matter of judgment. That being granted, then we must see on what his judgment is based. One may have confidence that one's friend will do thus and so, but merely one's confidence does not give that man a credit standing. Has he the possibility of repayment? is the vital question, then comes in the questions the proper answers to which are the right basis of confidence, faith, trust.

Burglar proof vaults and electric signals have saved money, but banks are robbed, and the introduction of such devices has not rendered watchmen unnecessary. Vaults and electric signals are good things to have: they help mightily—but they help only.

The man of intuitions is in constant peril of his "facts," and the more times he guesses right the greater his peril. It is a good thing, but let us have statements, careful analysis of business conditions and

a proper knowledge of successful methods. Let the credit man indulge his intuitions just the same. It will be a diverting thing for him to compare his "guesses" with the results of the facts and figures method.

As one hard headed wholesaler recently said to us: "I'll trust a credit man's intuitions about as far as you can sling a bull by the tail."

On character much of the basis of credit rests, but let us examine into its relative importance.

Character without money and ability means nothing in the commercial sense.

A man with character and ability and no money is an anomaly in the commercial world, hence hardly worthy of our attention.

If a combination of adverse circumstances are such, for instance a failure in which he has had no part, as to throw a man of character and ability out of a place where he has been making his living, he may become a credit risk for a reasonable amount, based on an understanding appreciation of his undertaking and his ability. But even then, he is asking a risk based on insurance tables rather than upon any commercial credits valuation. Hence, we may eliminate the man of character and ability but without money from our consideration. We have nothing left but money and character, and the greatest of these is money or its equivalent, marketable commodities, we cheerfully state a heresy in this assertion.

But we are led to it by apparently inevitable logic. If goods are the basis of all credit—character of the owner is and should be an after consideration. The very first question any credit man should ask, *Can* he pay?

Credit must be founded on a basis of liquidation.

The question having been decided in the affirmative, we turn to the question

*Will* he pay?

The question of a man's ability to pay is one becoming of greater ease of solution.

The question of his intention or inclination to pay must always be shrouded in the nebulae of psychological theory.

The question of ability therefore lies largely within the ability of the credit man to reason from small things to large conclusions.

The credit man must not be a mere receptive garbage can wherein a promiscuous heap of figures are fired, or one who sits owl-like and sizes up his men as some Indian fakir petrified in a mental attitude.

The credit man must be alive to the very last moment of his day, and he must know what is going on in his world of customers present and prospective.

His information sources must be as alert and sensitive as the tentacles of a jelly fish.

What is the applicant worth? is the crucial test. Then we shall test him by another. What sort of a man is he?

Do we buy a law suit when we sell him goods?

How much must we add for moral insurance against loss?

Character is of vital importance in small concerns; of vital importance in concerns doing a large business on small capital, and it becomes of less importance as we progress into the field of corporations.

What is character?

The reference books tell us it is the combination of peculiar qualities of mind and heart which distinguishes one individual from another.

Let it go at that.

A man has a good reputation:

When he is not given to making promises he does not keep.

When he recognizes the creditor's paramount right to all that he has to the satisfaction of a debt.

In short, that the man is commercially honest—honest in statement, intent and act.

"An honest man," one has grandiloquently put it, "is the noblest work of God." Possibly, but according to one's occupation arises one's ideals. An honest man is certainly one of the noblest works of the Almighty a credit man may fall in with.

It has been well said that every man has in him two natures, one good, the other evil—Dr. Jekyll and Mr. Hyde. The observing will admit this to be true, and it is the appraisal of the relative proportions of these two natures, which happily do not exist in any arbitrary proportion in all of us, that calls for a knowledge of human nature and an experience in the world on the part of the successful credit man.

Some good folks have said that these two natures appear in a man who will be the good, fond father and the tender husband, the charitable and sympathetic friend and neighbor, yet who will cheat the eyes out of you in a trade.

Yes, we have read of them. They are entertaining characters in books, and even appear life-like on the stage, but we hate to think we had any such on our books or among our friends. They are abnormal, and business abhors the abnormal, the queer, the unusual. Credit goes by averages and draws sustenance for its best laid rules from exceptions to those rules.

It has always seemed to us that it was a mighty poor man who would leave to his beloved family a heritage of shame and a name heaped with the obloquy that follows the liar, the cheat and the slick knave.

A man at home is not all of the man; the man in business is but a part of him—together the story is generally told. At the risk of appearing dogmatic it may be laid down as an axiom that the man who is careless of normal public opinion, indifferent to the good will of his fellows, is unsafe because he is uncertain.

We do not care about the obvious things. He may



be an elder in the church—that should make us investigate the reasons. In a small community where churches are strong trade is influenced by a generous support of the church. He may be a member of the most exclusive clubs, they too are a means to an end in the hands of clever men, and in sections of the country where more and more we are looking to externals, these social devices for prestige are being used to further commercial and financial ends.

Some time ago one of the best known decorators in an Eastern city confessed that he had enough of the "swell" trade. "I have to charge two hundred per cent profit and wait one, two and sometimes as much as four years, for my bills, or dun them and lose their future trade."

Ask many of the fashionable shops and you will get the same answer. Social prestige has little to do with native honesty and should not enter into the question of credit, except as a possible club to enforce payment, for many place greater store on their social position than on their financial or business standing.

A man who is known among his fellows as careful, as keen, as truthful, as a *man* in all the things that good old term implies, is the best foundation on which to rest confidence.

The spectacular Svengali who seems to conjure dollars out of the air will generally be found kiting checks at the bank.

Credit has nothing to do with miracles or with reformations.

If a man wants credit let him show by past performance his clean hands.

There is a good old maxim of the law—He who comes into equity must come with clean hands.

It should apply in credit.

Turning for a moment to corporation and company credit risks. Such credits are largely a matter of facts and figures.

But character may have a determining value. Who are the men shaping the concern's policy? In every corporation, partnership or company, there is always an individual or clique who shapes the policy. There is the dominating influence. Go there and study and know—find out all you can.

This nebulous thing you call a corporation, what is it?

Legally, it may have no heart or soul, but we know it is human. We know somewhere there is a mind directing it, making by that mind's powers or weakness for success or failure.

We know that it has morals—good or bad, as the men back of it are good or bad. We know it is not better than the men who direct it—therefore, how good, how safe is it?—for safety in business is goodness. The busy credit man cries out from the perplexity of his mind and the complexity of his work—"How shall I find out all these things?"

Ah, there's the rub, as the great dramatist put it.

By education of the credit man and the education of the debtor. Just as we have educated the debtor to give a statement of his financial condition we may educate him to the necessity of stating vital facts about his methods.

Ask the credit man of the local store how he knows John Jones and Farmer Brown's standing as credit risks, and he will give you a hundred and more little incidents—what this one said, what the local bank is doing with Jones' paper, what the implement man was over to see Brown about, what Jones figured on his corn this year.

The information is generally lying about in a thousand places. The credit man must be less a desk automaton and more a man of affairs. He must get out and meet the trade and personally know the conditions of his house's partners.

For one thing we must divorce the credit desk more

and more from the domination of the sales' desk, for the one is incompatible with the other.

Then we shall not be so afraid of "losing a sale," and will rather be more careful not to lose any of our capital. The credit man will be the collection man, as well.

The credit man will not be an overworked book-keeper who has a thousand and one other things to do.

He will be a man who can *manage* this part of the business, or he will not have charge of it. Which means that he will find time and means to protect his firm's capital.

If a good risk in credit parlance is an advance which is a reasonable per cent of marketable goods in process of being converted into money, it necessarily means that we must know what that process of conversion is in order to form a sound judgment.

Character determines how much we may depend on first-hand information and what sort of a credit instrument we should exact.

## CHAPTER VII

### Competition and Its Effect on Credit. The Market and Its Regulation of Prices—War Risks

**W**HEN we come to the question of competition we approach one of the most important and vital subjects of modern commerce.

By some it has been said that "Competition is not law, but lawlessness," and the same writer asserts that "The gospel of success is the great insanity of modern materialism."

Contrast this, as Professor Ely does in his *Evolution of Industrial Society*, with Richard Michaeli's assertion that "Competition was the gigantic motor that caused nearly everybody during the first nineteen centuries of Christian civilization to use all his mental and physical powers to get ahead."

Another calls it "cannibalism," while John Bascom in his *Moral Discipline of Business* says that "Competition is not crowding men off their feet but a means of planting them upon their feet."

Commercial competition is a manly struggle for the same end, i. e., generally the most advantageous disposal of goods.

The ethical consideration renders it impossible of a more precise definition except as we may be able to reduce "manly" to acceptable synonymous terms of common understanding.

If a man, though cheating, or by lies, or by force,

or by misrepresentation, illegal or immoral, obtains trade—that is not competition in the sense we use it.

Such methods are criminal or as immoral they are against the higher interests of society.

For instance, it is generally conceded that it is not “good business” to blackguard one’s competitors, or even to use language that shall remotely suggest his existence. It is said we “advertise” him; i. e., call him to the public attention. That is but a part of the explanation. By calling him to the public attention we know we shall appeal to the public’s ethical sense of justice—a desire to hear his side, to see his goods, we endanger our plea by placing our case in his hands.

In introducing these lines of thought apparently so wide of what may be termed a “practical” view of the subject, we desire to insist on a view we have seen so often vindicated in practical affairs—that the higher interests of the social order are daily becoming more insistent, and will eventually obtain.

Step by step the immoral agencies of unfair competition are being restrained by criminal legislation. It is well, therefore, for the intelligent business man to keep his ear to the ground, and to observe the evolution of social ethics which perforce must become business ethics. He must estimate the possibility of having the social conscience arbitrarily applied where the individual or corporate conscience lies dormant.

Government will eventually control the purely competitive features of trade more and more. It is “one of the functions of government to raise the ethical level of competition.”\*

Unfair competition has to fight right thinking people and the law.

The liar, the cheat, the buccaneer may succeed for a time, but we confess to a belief that such methods cannot be permanently successful.

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\*Henry C. Adams, *The Relation of the State to Industrial Action*, vol. 1, No. 6, Publications of the American Economic Association.

Individually, the period of apparent success may be extended, during which the credit man must watch the accounts of those whom such competition effects.

It is no part of ethics to jeopardize the business interests of one's house in order to play the good Samaritan, but it is the part of our large business interest, the interest that springs from our duty to do that which we may for the common good.

There is a large element of generous feeling towards the generous. We see it often, many of us have had intimate acquaintance with it. We see it among competitors where a manly battle is being waged. In periods of panic banks make common effort to protect the common interest. Not long ago a large house in New York was temporarily embarrassed and its chief competitor was most generous in its assistance. Among newspapers, we often see the keenest competitors loaning equipment in case of fire or other catastrophe interfering with the regular work of a paper's force.

Competition, however, is a war. We are all after the buyer's dollar, and if we cannot get it, we will make it as hard as possible for the other fellow to get it.

God made some of us with a set of principles embodied in a force called conscience. We have seen it in some men who have nailed to the mast of their ship—  
*"Live and Let Live."*

Honor to them, generous souls who strive only for their just share, desiring only what they may obtain with clean hands. They may not lay up a vast amount of the world's goods, but they will have the satisfaction of a clear conscience in the end.

In these commercial times when sentiment in business is either considered a theory or a confession of weakness, we may thank Heaven for even a small oasis of Heart in a Sahara of Head.

The man who has no competition must boast a remarkable strength of character to preserve his equilibrium of judgment. Usually he either dries up of dry rot or he

becomes the victim of his "cinch," falling into the abyss of failure.

Mark Twain said that every dog should have at least one flea—it kept his mind off the fact that he was a dog. Every man should have at least one active, healthy competitor for he will then have no chance to fall in love with his own greatness.

The average American loves competition—but he loves it better dead.

Many Americans would rather sell goods at a loss than let a competitor live. With many it is a game of dog eat dog.

Society has recognized the tendency and has legislated to restrain individual or collective greed.

Contracts in restraint of trade are generally unlawful. Unfair methods by which one party can obtain favors denied to another at the hands of public or *quasi* public corporations or services, are objects of adverse legislation. Society says: "You exist by our permission, for our benefit. We shall not be inconvenienced through your squabbles or your agreements."

Social tendencies are making towards more drastic legislation on the subject of competition. Public sentiment is gradually realizing that even a free country needs laws to regulate the freedom of a careless or conscienceless minority.

The anti-trust laws, the municipal ownership statutes and ordinances, all are making towards a control of competitive methods.

Competition is an important element in the study of the credit man. He must study its effects on the entire range of customers he has to handle, individually and collectively. In highly competitive lines such as dry goods, groceries, and the so-called necessities, the credit man must watch his customer and that customer's competitor.

There are a few obvious methods of testing the standing of a firm operating in a competing line.

Is the store advantageously located?  
Is it clean and well kept?  
Is it well managed, i. e., are the clerks attentive?  
Are the goods well displayed?  
Is the advertising effective?

Then comes the all important item of a retail business:

The prices—how do they compare? If the store has all the questions answered to its advantage, an investigation of its financial resources are of moment.

Complementary to these questions and modifying the value of the answers, comes the general repute of the store. A store of long standing and good repute may stand against a more progressive and business-like competitor for a time on nothing but its past reputation, but the iconoclasm of Americans makes them intolerant of yesterday's methods and attitudes.

In Philadelphia there is an old and excellent example. On one of the principal thoroughfares of that city there stands the old store of an old firm—intensely respectable and highly honored. Across the street some blocks away a new store entered some few years ago to do business in the new way. For five years the old store maintained its intense respectability, with trade slipping away. One day a few years ago there was an upheaval and the management was changed. New ideas were introduced, the old boys swung into line and commenced to fight for trade. They got it and kept it. It has grown since with the others. No one may say what that stiff-necked refusal to bow to conditions cost it.

No man can be largely and continuously successful who does not fight for business.

*The public goes only where it is invited and stays only where it is well treated.*

The trained credit man having that sixth sense of observation trained by constant use to be sensitive to the very atmosphere of a place, can analyze a business from its most superficial aspects.



A business is worth only what a competitor permits it to be worth, is a general maxim. There is always a losing and a winning side to competition and it vitally concerns the credit man which side his applicant occupies.

Competition goes farther in manufacturing lines than it does in retail. The public will often make a retailer observe some rule of decency.

Women are bargain hunters, but every man who observes knows that stores thrive on the other element that causes people to pay more for a thing because it is the fashion to buy it with a certain label, or, the proper thing to buy it only in a certain district, as Fifth avenue in New York or Chestnut street in Philadelphia. The manufacturer deals generally with business men who buy in the best market. They thrive on one another's distress and are constantly on the *qui vive* to save a penny by taking a bargain forced by a temporary embarrassment.

Competition has become so keen in some lines that expert competition men have been employed to organize the campaigns against impudent intruders. These are called competition managers, promotion managers, etc., to differentiate them from the ordinary sales managers.

A large concern of national repute, selling a specialty of use in retail business houses, has a special corps of men in a regularly organized Competition Department. These men are twenty-five to fifty in number. Their business is to "make it interesting" for other concerns who try to do business anywhere in the same line. "We do not care how much they make but they must not sell what they make," is the candid statement of one of the managers. A score or more concerns have endeavored to compete with it. These concerns have been backed by ample capital and managed by men of brains and resources.

They went into the fight to win.

They fought a good fight but they lost.

Hundreds of thousands of dollars were lost through

those failures. Did the credit men of the concerns who gave them credit know what their debtors were up against?

I hardly think so.

Wouldn't it have paid to know something about the competition conditions in force in that line of business?

I think so.

The company above referred to operates a system beautiful in its simplicity.

For every salesman the competing concern puts in a territory this company puts in two with an Expert Competition Man. These men follow the competing salesman everywhere he goes—they are trained to do this in a way that will not open them to the interference of the courts. The company maintains a school where salesmen are regularly taught the weakness and strength of all competitor's goods and claims. The talk is plain and refreshingly candid. Salesmen are instructed "not to follow a competing salesman, but always know what he is doing and always be around when he is trying to close a sale."

If this persistent espionage does not drive the competing salesman out of a territory, and he demonstrates that he can make sales of his product, he is then approached by an offer of greatly increased pay and patent suits against his company, with injunctions against users, are started.

Such methods may create sentiment for the under dog, but it certainly does not make the under dog any better as a credit risk.

In the retail grocery line the writer is conversant with the history of a concern operating a chain of grocery stores in a large city.

Its practice was to open a store in a neighborhood where several grocers were making a decent living and were considered good credit risks by the jobbers. Suddenly butter would be offered at 11c a pound that the competing grocers could not buy for that; prunes would

go to 8c a pound when the wholesale rate was 9c—seven pounds of sugar would be offered broadcast for a quarter. Every nook and cranny of the neighborhood would be strewn with the advertising offering these great bargains. The good old ways were no more. People thronged to the new store, while the old style grocers twiddled their thumbs.

Was it time for the credit man of the wholesale and jobbing houses to know something about competition?—to know what was being done to counteract it, and to appraise the value of such efforts?

I should think so.

The credit man who grants credit to either competitor is entering a war risk wherein he must watch the tide of battle carefully, keeping his finger on the pulse of his debtor's business, gaining something from victories, granting something in defeats.

As competition makes prices and prices profits and profits success or failure, the manufacturer in a game of "freeze out" competition often sells at a loss to gain a greater profit later. What are the resources of the competitor? becomes the important question. The danger line looms up close at hand.

A scientific basis of credit would have some facts and figures about competition.

## CHAPTER VIII

### Credit Insurance—Its Advantages and Its Drawbacks as a Credit Proposition.

**T**HE final test of credit indemnity insurance must be: Does it pay? Unless it be shown to the satisfaction of the commercial mind that the risk is beyond the control of the average mind, i. e., that the risk of more than average loss is a risk of sufficient possibility of happening, the credit indemnity insurance outside of purely financial institutions must remain a success of the time only, or the premiums must be reduced to the minimum that a remote possibility may be covered by a comparatively small sum.

Insurance against loss appeals to the fallible human intelligence. It appears a good thing at first blush.

Wherein does the Ethiopian gentleman appear in the aggregation of lumber?

In the terms of the contract.

It then reduces itself to a question of averages again, in which the insurance company bets the assured that the losses will not go beyond the average, which bet is further hedged by certain conditions tending to overcome the condition of the assured betting the company that he can trust people who can not pay their accounts. But we shall leave the argument to a representative of a Credit Indemnity Company and to a credit man who is vice president of the National Association of Credit Men.

It is frequently said that "this is an insurance age," and it seems true in the United States, at least. The great desideratum, especially among business men, is security—immunity from risk. When they have taken all precautions which prudence requires for the prevention of disaster, they indemnify themselves against the injury which would result if it occurred.

The many inventions and improvements that have facilitated the transaction and extension of business have also intensified competition. Trade in every territory is eagerly sought by competitors located at great distances from it and from each other. This both narrows the margin of profit and increases the hazard of loss, for it is impossible for a mercantile house to keep as well posted on the financial condition of its customers when they are widely scattered as it would if they were all near at hand. In fact, a large dispenser of credit recently made the remark that "If every credit man could make a trip and learn all about each of the customers of his house, he would reduce their lines of credit 50 per cent."

All of this accounts for the steadily increasing popularity of Credit Insurance. When a merchant has secured the best information obtainable about his customers and been judicious and careful in extending them credit, he likes to be exempt from loss through their insolvency.

Credit Insurance affords the manufacturer or wholesale merchant greater protection than if every one of his customers carried a full line of all kinds of insurance. In fact, a Bond of Indemnity is simply collateral on the merchandise accounts of the indemnified. It limits the annual risk of loss through insolvency of debtors to a normal amount and provides for losses in excess of that amount to be refunded in cash by the credit insurance company. It is a clear, simple, equitable proposition that is entitled to the earnest consideration and study of the credit man. The company requires four things; first, the applicant must be either a manufacturer or wholesaler;

second, he must answer truthfully certain questions regarding his business methods and record of experience in the matter of losses, which will enable the company to make a proper diagnosis of the risk involved; third, he must pay the premium; fourth, he must comply with the terms and conditions of the contract.

For these considerations the company agrees to insure, under proper safeguards and limitations, the merchandise accounts of the indemnified where the goods are owned, sold and delivered by the indemnified during the term of the bond to any customer actively engaged in mercantile business in the United States or Canada.

The limit of coverage on each account is determined by the capital and credit rating of the customer as shown by any Standard Commercial Agency which has been selected by the insured to govern the ratings under his bond, but when no rating exists the company co-insures with the indemnified, assuming a certain specified percentage of the risk. Where a covered account, as above explained, is against a debtor who becomes insolvent during the term of the bond, the account is provable against the company to the extent of the amount of the coverage less collections and agreed valuations. Where the aggregate of claims during the year is in excess of the natural or initial risk incident to the business, which is specified in the bond and which the indemnified has agreed first to bear, this excess is the amount payable and due the indemnified.

Credit Indemnity is an important acquisition to the equipment of any business and is particularly valuable to the credit man in that it indorses his judgment every time he places his O. K. on an order and places a premium upon his acumen in credit granting. A great many credit men welcome a bond as an excuse for reducing, without offending the customers, abnormal credits that have crept into their department from one cause or another. It also furnishes the credit man with a defense against that most optimistic credit granter in the world, the salesman, who is

always ready to complain of the injustice done his friends when the credit man declines over-indulgences. It serves to call attention to extreme lines of credits with old and so-called "Well known customers," in that greater vigilance is necessary in watching ratings for the reason that under a bond they take on new importance, as they indicate the measure of guaranteed liability. A bond adds increased dignity to the credit man, as each credit is granted upon a certainty rather than a supposition. It gives greater force and reliability to the credit man's work.

In case of unexpected losses, the protection certainly is a tribute to the foresight and judgment of the credit man.

It has been contended by some that the universal adoption of this system would supplant the credit man. The bond can in no manner or respect affect the status of the credit man save for his good. His acumen is no less keen nor he less vigilant or less valuable than though no bond was in effect. In truth, our bond enhances his value. Life Insurance Companies do not supplant physicians or Fire Insurance Companies, fire departments. The analogy is correct. The sick man wants his physician because he does not want to die, but still he may, and if he does, he needs and wants Life Indemnity; likewise the business man employs the credit man because he does not want burdensome losses. But he knows such losses do come and always at an unexpected and unfortunate time; when they come he needs and wants credit insurance.

Credit Indemnity does not seek in any way to restrict liberty of action in conducting a business, although it does insist on exercising a prudent caution.

A bond gives a tangible and reliable basis for credits, a definite collateral for book accounts. It confirms the judgment in making collections and gives to the whole business insured better system. These benefits are real and constant. They combine to give full value for the premium and make the system worth more to the insured

than its cost, regardless of any amounts that may be collected under the bond. This consideration from the standpoint of practical protection afforded is the only fair one upon which to estimate the value of any insurance. Those who object to Credit Insurance because they do not see a definite promise to return them more than they pay in would be the first to condemn any other business proposition suggested upon such a basis; but if Credit Indemnity is weighed in the balance of practical benefits received by the indemnified as against money paid, no disbursement during a business year will show larger benefits and returns.

Self-preservation is the first law of nature. This instinct is no stronger anywhere than among business men, and the better the business man the stronger the instinct. Where is the business man who contends all his customers are so good that an indorsement on their accounts would be refused? Safety and certainty in business transactions are always preferable to hazard and uncertainty, and upon this principle Credit Insurance is constructed and stands. It encourages care and such conservatism as is consistent with legitimate business activity and healthy commercial progress.

Now, a few words as to the economic value of Credit Indemnity and its effect upon financial panics which financial disturbances have a habit of weakening confidence at stated periods in this great country of ours. Panics are nothing more than lack or loss of confidence in credits, and the world has eagerly looked for a preventive or cure for them. When the financier feels that conditions are such as to make credits unstable he commences to draw in his loans and contract his outstandings. The manufacturer or wholesaler thus feels the necessity for reducing his lines of credit, and knowing A. B. & C. are doing likewise, he becomes nervous, insists upon valued but solvent debtors settling at once and either loses a customer or precipitates a failure which would not have occurred had the customer been given reasonable opportunity to settle, and a panic is begun. If the business world knew



that there was behind these accounts a good collateral and that creditors would be reimbursed for any losses that might occur, the panic-creating effect would be checked, confidence maintained and panics a thing of the past. Someone wrote sometime ago of credit insurance:

"Its application to ordinary losses from ordinary insolvencies and to the extraordinary conditions resulting from extraordinary failures cannot but be of interest to the professor of political economy and to the practical business man." We commend it to your consideration, feeling that it will promote the merchant's peace of mind and enhance his security, and we will live to see the time when a policy of credit insurance will be universally considered just as necessary as a protection in business as a fire insurance policy.

W. E. SCHWEPPE,

Manager Bankers' Department, American Credit-Indemnity Company.

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## THE DRAWBACK OF CREDIT—INDEMNITY INSURANCE.

BY HENRY A. JEFFRIES.

**T**HE subject of Credit-Indemnity Insurance has been somewhat widely discussed of late. Arguments more or less conclusive have been made in its favor, but none have been advanced which could not equally as well be brought against it, paradoxical as this statement may appear.

While there are few, if any, business men who are opposed to the principle of insurance, some, at least, are unable to see any special need for credit insurance. Though all are agreed that protection pays, yet they seriously question this maxim in respect to insuring accounts receivable. If by the same law of average to which believers in the soundness of the proposition give their adherence, credit insurance is found lacking in the elements essential to the upbuilding of the financial inter-

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\*Written for The Business Man's Magazine.

ests of the commercial world, then assuredly it will not pay.

Broadly speaking, the drawbacks of credit insurance are the insufficient reasons that are given for its existence, and the sufficient reasons for its non-existence. But the main problem to be solved is: Does it pay?

An authority on insurance, referring to the risk, says: "The loss apprehended must be so considerable when it does occur, as to be worth providing against." This is the final test as to insuring all classes of hazards.

Each system of insurance belongs to one of the two grand divisions into which it naturally falls—those that are based on the probability of financial loss, and those that are not. In the first division we find, principally, fire, life, surety, marine, and accident insurance, all of which meet the requirement contained in the foregoing quotation. The second division is made up of schemes that partake largely of the nature of a lottery.

Of course the death of a person whose life is not insured might cause his dependents no financial loss; yet life insurance is considered a paying investment under all circumstances. Also, in the second division, a person who insures against the probability of his having issue might be greatly benefited in receiving the face value of his policy if he should become entitled to its payment. Such exceptions as these serve to prove the correctness of this classification.

As is well understood, the "own," or "initial," loss in credit insurance is the average loss for a series of years in each business insured. This loss is subject to readjustment, as it may fluctuate to some extent. Though exceptional losses may occur in any credit business, still, if so, they rarely cause a wholesale concern to fail, as will be shown conclusively further on. Rarely will two bad years happen together in any one business in this particular; but if they should, the pendulum of loss would, more than likely, swing back, thus re-establishing the former average. Therefore, the evident con-

clusion must be that any sum expended on the insurance of accounts for a period of years, at least, will not give results proportionate to the outlay.

The reason for this is, that the possibility of making a loss equaling the face of a credit insurance policy is too remote to be seriously considered, and this fact discloses the principal drawback of credit insurance. It increases the expenses of a business in the end without correspondingly increasing the net profits. In other words, when all has been said for it that possibly can be, the fact remains that this form of insurance does not justify its existence to the extent claimed for it.

The friends of credit insurance strenuously object to this reasoning. They say these premiums are for their protection from a probable excess loss; that no one should expect to make money out of a credit insurance bond. But they fail to ascertain whether the end they have in view is really existent, and, if so, whether it is of such consequence as to be worth the cost.

Comparison with fire insurance in this connection is hardly fair when we take the far greater probability of loss by fire so far as the amount is concerned. Someone has attempted recently to show that there is not only a strong resemblance between the two kinds of insurance, but that the hazard is very largely against credit insurance, as compared with fire insurance.

To illustrate, he supposes a case where fifty accounts of \$10,000 each are insured by a bond calling for \$10,000, and alleges that, inasmuch as this covers every account, the risk ratio is 50 to 1 against credit insurance, because if the accounts were buildings each one of them would have to be separately insured. Let us examine this sweeping claim in the light of facts.

In the first place, the fire insurance company's premium for a given time would be no greater than that of the credit insurance company, on an average. Secondly, no credit insurance company would insure the amount of one such account and let its policy apply to all of

them without a large increase in the rate, or in the amount of the policy. Thirdly, no credit insurance company would pay the loss on even one of these accounts until the total initial loss had been deducted from the amount of such loss, as also the percentage of agreed loss on the account, if any. This is an extreme case. In an ordinary case the same reasoning would apply, though less favorable, perhaps, to the insurance company.

The total average per cent of losses paid as compared with premiums received by the fire insurance companies of this country for the past ten years is about 55, or something like 25 per cent more than was paid by the two principal companies writing credit insurance during the past five years, the only period for which the writer has figured; but these are evidently fair for the purpose of comparison.

According to all these facts what becomes of this 50 to 1 loss ratio against credit insurance?

As already intimated, it seems that companies offering credit insurance insist on insuring each risk for an amount considerably beyond what has ever been the experience of the assured in the matter of credit losses after allowing for the average initial loss and the limitation as to recovery placed on each account thus insured. A house that has never had half so large a loss from bad debts in a single year as is named in its policy must abide by this rule, which clearly shows that credit insurance may safely be omitted from the operating expenses of any business eligible for it.

For example, if a business has an average normal loss of, say, \$5,000, its policy will call for \$20,000, or thereabouts, even though neither its experience for a single year, nor the probability for the future, would justify so large an expectancy of loss. At the prevailing rate, in order that the actual loss shall not exceed the agreed initial loss plus the premium, the policy must be written for a much larger sum than there would seem to be any necessity for in the light of experience and prob-

ability, though in the event of such loss occurring the assured would naturally profit. It is quite improbable, however, that this situation would arise; so any merchant could afford to carry his own risk. But if it did, his next year's initial loss would be largely increased, lessening the chance of the company's having to pay him anything for the next few years, at least; and subsequent small initial losses would but show the merchant the uselessness of paying for credit insurance year after year.

No credit insurance company believes that a total loss will happen to any of its patrons from bad debts. It never offers to insure even a quarter of the amount due its policy holders from unsecured debts. So a business that cannot afford to insure its own risk, as it were, is either badly managed or radically out of condition.

The only chance for the average concern to become financially embarrassed by credit losses is where its accounts are few and large. Only then could its credit hazard be compared with that of fire, so far apart are they otherwise. Consequently the ordinary business house can afford to take the risk on accounts receivable, but it cannot afford to take any chances on either a partial or total destruction of its stock by fire. A partial fire loss is far more likely to occur than an extraordinary excess loss on accounts.

If the probability of an excessive or total loss were not so great, does anyone think the people of this country would pay over \$100,000,000 annually for protection from fire and only get back about half of this vast sum? On the other hand, why is any insurance necessary where the possible loss cannot be a total one, and where an excessive loss, if realized, can be overcome by subsequent premiums, or, where such insurance has been previously carried, by the premiums already paid?

Credit insurance companies do not claim that under their bonds less discretion may be used in dispensing credit than otherwise. On the contrary, greater care

must be exercised by the credit man, if anything, than possibly he has been accustomed to give, in order that he may keep within the limit allowed him by his policy; and a customer who is not considered a fair credit risk without insurance is certainly not one with it. There can be no serious difference of opinion on this point, surely. There is, therefore, no opportunity for increasing the net profits of a business by reason of its being operated under a policy of credit insurance, as some of its enthusiastic supporters confidently assert; for a merchant has no greater ability to meet competition nor to sell more goods than another whose business is equally well managed, but whose accounts are not insured.

It has been said that credit insurance companies will eventually become powerful enough to prevent panics. But how could this be true when even during times of financial depression the ratio of failures among wholesalers because of uncollectible debts is so very small? According to Bradstreet's the proportion of such failures in 1903 was only two and two-tenths of the whole number. A large percentage of the uncollectible debt assets of failed concerns are made up of initial losses, none of which could have been insured.

If by general law of average, as applied to every business house that is managed with any degree of care, the protection offered by credit insurance is unnecessary, why should not the cost of same for a term of years be compared with any excess of loss beyond the initial, paid to the assured? It only pays to be protected where the hazard is such as to be worth while providing for. There are even cases where fire insurance is unnecessary, and large property owners have carried their own risks.

A frequent comparison has been drawn between money loaned without security and merchandise sold in like manner, and on first view the two appear similar, but not for the purpose of proving the value of credit insurance. The lending of money is one thing; the selling of goods on credit quite another, for each is on a

different basis, and surrounded by different conditions. Custom and the law of average as to losses govern both these things. But money, being more easily manipulated than merchandise, and always worth its face value (in most countries), must be handled with greater care as the legal medium of exchange.

Credit insurance companies lay great stress on the alleged value of credit insurance as collateral on accounts. To guarantee the payment of a lot of accounts for the purpose of obtaining a loan is quite different to carrying insurance on them year after year. To the person who has no cheaper or easier way of borrowing money, credit insurance presents its most plausible side, and this is possibly the one principal exception that proves the rule against its desirability as a business investment.

## STATEMENT AS A BASIS FOR CREDIT.

The undersigned, for the purpose of procuring credit from the following as a true and accurate statement of financial condition, and hereby agrees to notify <sup>if material</sup> change takes place from the figures submitted below.

Name \_\_\_\_\_  
 Location \_\_\_\_\_ County of \_\_\_\_\_ State of \_\_\_\_\_  
 From inventory of \_\_\_\_\_ 190\_\_\_\_ Business \_\_\_\_\_  
 Dated \_\_\_\_\_ 190\_\_\_\_

## ASSETS.

Merchandise on hand and in transit, \_\_\_\_\_ \$ \_\_\_\_\_  
 Outstandings, including bills receivable, open accounts, etc., at realizable value, \_\_\_\_\_  
 Cash on hand and in bank, \_\_\_\_\_  
 Other PERSONAL assets, consisting of \_\_\_\_\_  
 \_\_\_\_\_  
 Total available assets, \_\_\_\_\_ \$ \_\_\_\_\_

## LIABILITIES.

For merchandise not due, \_\_\_\_\_ \$ \_\_\_\_\_  
 For merchandise past due, \_\_\_\_\_  
 Loans from bank, \_\_\_\_\_  
 Loans other than from bank, \_\_\_\_\_  
 Other obligations, \_\_\_\_\_  
 Total liabilities, \_\_\_\_\_ \$ \_\_\_\_\_  
 Surplus in business, \_\_\_\_\_

REAL ESTATE: Describe, locate, and value separately, AND IN WHOSE NAME HELD.

Total value of real estate, \_\_\_\_\_ \$ \_\_\_\_\_  
 Mortgages or amount unpaid thereon, \_\_\_\_\_  
 Equity in real estate, \_\_\_\_\_ \$ \_\_\_\_\_  
 Total worth, in and out of business, \_\_\_\_\_  
 Insurance on stock, \$ \_\_\_\_\_ On real estate, \$ \_\_\_\_\_  
 Annual business amounts to \$ \_\_\_\_\_ Amt. of chattel mortgages or judgments, \$ \_\_\_\_\_  
 Individual obligations of each partner \_\_\_\_\_  
 Ever burned out? If so, state circumstances of fire \_\_\_\_\_  
 Give full name of all the partners \_\_\_\_\_

In consideration of the granting of such credit the undersigned agrees that if \_\_\_\_\_ at any time fails or becomes insolvent or commits an act of bankruptcy or if any of the representations prove untrue, or if the undersigned fails to notify \_\_\_\_\_ of any material change in \_\_\_\_\_ financial condition, in either case all obligations owing by the undersigned shall become due and be payable without demand or notice.

Witness { \_\_\_\_\_ By whom signed. Member of firm.  
 \_\_\_\_\_  
 \_\_\_\_\_ Sign here full name of firm.

Bank with \_\_\_\_\_

An Ideal Credit Statement—Form II



## CHAPTER IX

### What the Statement Means to a Credit Man

**T**HE statement is generally considered the starting point, the basis of judgment. It is not generally considered at its face value, but simply as a means to an end.

The general scepticism with which statements are viewed is often the cause for a disinclination to submit them on the part of concerns of good standing. In a time of competition it is often placing power in the hands of one's enemies. But the commercial public requires it and by persistent hammering has educated the average retailer and business man generally to see an average of advantage in submitting a statement of his business to the scrutiny of his creditors.

Since the creditor, to a certain extent, is as a man playing another man's game, it is just and right that the creditor should know what he is playing, insofar as may be.

We feel that we can do no better than quote from an eminent author on the subject, in a passage that puts the reasons for giving a statement so cogently that we feel there is nothing to add:

"The solid man of business," says Mr. McRae, "who from pride or prejudice hesitates to disclose the position of his business affairs to the confidential ears of his bankers, damnifies himself in two ways: on the one hand, he lessens the full measure of credit which he might obtain from them should he ever desire to borrow; on

the other, he fails to furnish them with data whereon to speak of his position, with knowledge and decision, in reply to inquiries from without. A man lays bare the secrets of his constitution with candor to his physician, lest in the absence of an exact knowledge of the case, inapt remedies should be applied. For a like reason a man should be equally frank with his banker; otherwise, in the absence of a complete knowledge of his position, you may ply him with stimulants, when purging would be better; or bleed him to commercial death, when a timely stimulant might save his existence.

"There are those no doubt, who have potential reasons for keeping the condition of their affairs a sealed book from their bankers; but it would be unsafe, nevertheless to assume, in every case, that because a man refuses to show you his balance sheet, he is therefore in a bad way. There are people of secretive habits who would regard with dread the possibility of even their bankers getting to know, not how poor, but how rich they are. But the persons who take this peculiar view of things are few in number. Men in large and active business, and requiring at times large banking facilities, see the wisdom of laying of their own accord their actual position before their bankers, and having a friendly talk over the figures. Every man should know that by this course he secures to himself in times of pressure and panic a larger measure of help, should he require it, than if his capital, however ample it may be, were still an unknown quantity to his bankers.

"If it is asked on what ground we claim for banks this intimate and exceptional knowledge of other people's affairs, it might be sufficient to reply that we make no exclusive claim to the information. We seek it for ourselves, it is true, but we have no desire that it should be withheld from everybody else, not from a single person who has a right to know it. The information thus acquired you have constantly to impart to other banks, for the guidance of their customers and themselves. A

banker's opinion of people in business or out of it, is in daily and universal request throughout the land; and as the reliance placed upon that opinion is well-nigh absolute, it had needs be sound. It is always as sound as the banker can make it, but not always as reliable as he could wish it to be."

While the foregoing applies specifically to bankers, yet the writer can see no just reason why the very same rules as effect the extension of good banking credit should not be applied to the question of mercantile credits as well. While this is not the time to discuss the many and cogent reasons why it is sometimes advantageous and even necessary for the merchant to go outside these necessarily restricted rules, yet the writer thinks that a careful analysis of these exceptions, will but give a greater strength to his contention, and still further convince the thinking man that the differences are more apparent than real. If, as we are assured, all merchants desire to obtain and keep a banking credit, and if banking credit is based on the equivalent of marketable commodities, then the credits which merchants extend should be based on the equivalent of marketable commodities.

In considering a statement it is not so much the chronic and intentional misrepresentation that we must study to avoid, but it is the man who through ineffective methods and loose systems is not able to give us a reliable statement. For this reason, so potent and far reaching in its effects on the credit fabric, we have insisted to so unusual a degree on the credit man having a more thorough equipment of facts and figures about the lines of business he is dealing with.

Let us examine for a space a few representative credit statements, the forms of which are used by well known credit men.

The credit man's suspicions are shown in the statements he requires. Instead of being considered as a document replete with truth and accuracy, it is searched

for odd corners and places where things may be hidden or masqueraded, as something quite opposite to their real nature. As a matter of fact the balance sheet is a weak factor in the hands of an unscrupulous man and lends itself without a blush to the most extravagant exaggerations and misrepresentations.

AN IDEAL CREDIT STATEMENT, FORM I, PAGE 81.

1. It will be noted that after the words "open accounts" and "notes" are added the specifications "good and collectible."

On the liability side will be found a distinction in regard to Accounts Payable, ordinary Accounts Payable and notes past due.

It by no means follows that the applicant for credit will fill out these particulars truthfully, but there is a kind of moral obligation involved, which, to a certain extent, is rarely overlooked, at all events only by unprincipled persons who may be tripped up through facts gleaned from other sources.

Form 2 is a little fuller, but practically covers the same ground, and at the foot is a solemn obligation which will never be carried out under any circumstances, and could not be enforced. It is there, however, for moral effect, page 75.

Form 3 appears to have been arranged exclusively for partnerships, and at the foot will be noted an assertion that the statement contains an accurate account of all the property owned by the parties desiring credit. In this connection any provision for the inclusion of good will, franchises, patents, contingencies, bonuses, and flagpoles, is conspicuously absent, showing that the credit man is particularly alive to the necessities of his position.

In estimating the worth of a concern applying for credit, the credit man should apply liberally the principle of depreciation. Appreciating the generosity with which a merchant will estimate the value of his own resources, the credit man should deduct 10 per cent from accounts and notes receivable as a reserve against bad

# STATEMENT

Statement Made this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_ at \_\_\_\_\_  
 by \_\_\_\_\_ of firm of \_\_\_\_\_  
 of \_\_\_\_\_ County of \_\_\_\_\_ State of \_\_\_\_\_ which  
 firm is composed of the following persons: \_\_\_\_\_ Married? \_\_\_\_\_ Age \_\_\_\_\_  
 \_\_\_\_\_ Married? \_\_\_\_\_ Age \_\_\_\_\_  
 \_\_\_\_\_ Married? \_\_\_\_\_ Age \_\_\_\_\_  
 And engaged in business of \_\_\_\_\_

## ASSETS.

Cash value of Stock in Store, including fixtures  
 (Insured for \$ \_\_\_\_\_)  
 Cash value of Stock in transit \_\_\_\_\_  
 Amount of Book Accounts considered good \_\_\_\_\_  
 Amount of Notes considered good \_\_\_\_\_  
 Cash on hand or in Bank \_\_\_\_\_  
 Other Personal Property, if any \_\_\_\_\_  
 Do you own Store Room? \_\_\_\_\_ And of what value? \_\_\_\_\_  
 Do you own Residence? \_\_\_\_\_ And of what value? \_\_\_\_\_  
 Give other Real Estate, if any \_\_\_\_\_  
 Individual Property of \_\_\_\_\_ R. and P. and cash value \_\_\_\_\_  
 Is Real Estate in your own name? If any is not, name the exceptions \_\_\_\_\_

## LIABILITIES.

For Merchandise on open Account not due \_\_\_\_\_  
 " " " " past due \_\_\_\_\_  
 " " closed by note or acceptance not due \_\_\_\_\_  
 " " " " past due \_\_\_\_\_  
 For Chattel Mortgage, Bill of Sale on Stock or Personal Property \_\_\_\_\_  
 To whom given \_\_\_\_\_  
 For borrowed money not secured \_\_\_\_\_  
 State who borrowed from and your relation to and connection with the lender \_\_\_\_\_  
 Individual indebtedness of \_\_\_\_\_  
 " " " " \_\_\_\_\_  
 Other Liabilities not enumerated show \_\_\_\_\_  
 Does your wife or any relative hold or claim to hold any notes, accounts or other  
 indebtedness against you? How secured? How much \_\_\_\_\_  
 Any judgments against you or any member of firm? \_\_\_\_\_  
 In what Bank do you carry your account? \_\_\_\_\_  
 How much, if anything do you owe them? \_\_\_\_\_  
 For Mortgage or Deed of Trust on Houses, Lands, &c. \_\_\_\_\_  
 To whom given \_\_\_\_\_  
 Are you surety or endorser on any bond, notes or other obligations for friends or  
 relatives? If so, for what purpose and what amount \_\_\_\_\_  
 Total Liabilities \_\_\_\_\_  
 Amount Assets over Liabilities \_\_\_\_\_

We, \_\_\_\_\_ and \_\_\_\_\_, severally  
 represent to \_\_\_\_\_ that our above statement contains the exact amount of all our joint and several property,  
 real and personal. And we further severally represent to said \_\_\_\_\_ that our said statement  
 also contains the exact amount of all our partnership indebtedness on this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_;  
 and the exact amount of all the individual indebtedness of each of us on said date. And we hereby jointly and severally war-  
 rant to said \_\_\_\_\_ that said representations, all and singular, are severally true, to induce said \_\_\_\_\_  
 to extend us a credit of \$ \_\_\_\_\_ for merchandise to be this day and hereafter purchased by us of said \_\_\_\_\_  
 and said statement shall stand good as to all purchases or extensions of payment made on this day or subsequent  
 thereto, unless at the time of such subsequent purchase or purchases, or extensions, \_\_\_\_\_ shall notify  
 said \_\_\_\_\_ of any change in the \_\_\_\_\_ assets or liabilities, and  
 hereby binds \_\_\_\_\_ to give notice in case of any material change in \_\_\_\_\_ financial condition  
 otherwise all subsequent purchases or extensions to be made on the faith of the above statement.  
 Dated this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_

An Ideal Credit Statement—Form III

*Galtail, ..... 111.*

Name .....  
 Town ..... County ..... State .....

LIABILITIES			ASSETS		
<i>Accounts,</i>			<i>Goods in Store,</i>		
			<i>Goods in Transit,</i>		
			<i>Open Accounts, Good and Collectable,</i>		
<i>Notes,</i>			<i>Notes, Good and Collectable,</i>		
<i>Accounts paid for,</i>			<i>Cash on Hand and in Bank,</i>		
<i>Notes paid for,</i>			<i>Other Personal Property,</i>		
<i>Mortgages on Real Estate,</i>			<b>REAL ESTATE</b>		
<i>Insurance on Stock in</i>  <i>Due Pending or Judgments,</i>  <i>Any Chattel Mortgages on Stock or Personal Property,</i>			<i>Company for</i>		
<i>Witness,</i>			<i>Signature,</i>		

An Ideal Credit Statement—Form I

debts; about the same percentage for machinery; at least 10 per cent on account of shop worn stock, and 50 per cent from anything scheduled which appears to be of indeterminable value. If, after this operation, the surplus of assets over liabilities appears to have been transformed into a deficit, the credit man should require security, or make such further investigation into the general reputatiton of the firm, or corporation, involved as would enable him to accept the risk with a fair assurance of ultimate realization.

It is now so generally understood that certain classes of assets on a balance sheet are more or less fictitious that

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**How much store rent do you pay?**

**Do you consider your stock and buildings fully insured?**

**in what companies?**

	NAME.	On Stock.	On Building.	Expires When.	
		\$	\$		

Reverse of Form I

applications are not often made for credit based on a showing of that kind. The forms of credit statements herein illustrated show distinctly that the credit man should possess an intelligent appreciation of the science of accounts in order to successfully analyze statements of this kind. In some classes of business a "construction" account is perfectly legitimate and represents actual value, but the value placed on a mine, or on real estate, etc., should always be compared with the amount of working capital. It would be generally safe to make it a rule to assume that where assets of this kind are a very important feature of a balance sheet, while the cash on hand amounts to \$2.50, or thereabouts, there is a good deal of "discount on stock" lurking around somewhere and not much real value.

The recent decisions of some of our courts (given some definite comment in the chapter devoted to "Credit Statements in Law") have restricted the activity of the very original statement maker.

There are several questions the man unfamiliar with the operations of higher accounting should ask, quoting from Professor Bolle's well known book:

"(a) Is the capital sufficient, and has it been contributed in cash; if not, what does it represent?

(b) Who constitute the firm, and do the partners understand the business?

(c) Has the stock been taken in at a fair figure, and has due allowance been made for depreciation? This is very necessary to ascertain in large manufacturing concerns.

(d) What about accounts and bills receivable? Has due allowance been made for doubtful credits, and have all bad debts been written off or provided for?

(e) The liabilities of the firm should be carefully examined; are they heavy; are they continuously large; to whom and what for?"

To these let us add:

(f) Is the buying legitimate in amount?



(g) Do they carry other lines beside their principal business? If so, where does the capital come from?

The import of these questions brings us face to face with the requirements of the highest form of credit man—i.e., he who knows that he knows, and has the proofs of the knowledge at hand. The credit man on investigating can generally find out what a statement is worth. A talk with his applicant's accountant, with the man himself, will soon demonstrate the reality of the stated conditions, provided the credit man has the requisite knowledge of the trade and proper methods.

## CHAPTER X

### The Credit Man as an Auditor: Imperfect Accounting Systems Among Retailers

**W**E have before dwelt on the credit man's required knowledge of accounting. That figures may be made to lie is an axiom that a day's experience at a credit desk would amply prove.

If a credit man must have the ability to analyze a statement so as to make an approximately correct diagnosis of the debtor's condition from the latter's own statement, he must be prepared to go further. He will often be brought to the point where he will have to put aside the debtor's views of the business entirely, and get down to the facts of the business as reflected in the daily records of the transactions. The credit man's work is never done, for he not only has to examine applicants for credit to determine their fitness to enter the select circle of his concern's risks, but he must keep a constant watch on each and all of them forever afterwards, to detect sins of omission and sins of commission.

The growing tendency to assist the debtor when he gets in "a tight place," to "get a man out of a hole and not to try to put him in one," is responsible for this additional burden on the credit department.

A writer in a recent number of the *Annals of the American Academy*, Mr. Herbert Beck, laid down some extremely practical suggestions. We shall take the liberty of paraphrasing much of Mr. Beck's article in

our application of the benefits of a knowledge of auditing to a credit man.

The audit of a set of books means more than the mere ascertainment of the truth or falsity of the entries and footings. It concerns itself with the reasonings back of every entry—to locate false logic as expressed in conclusions or processes.

The credit man called in at a moment when a debtor is in doubt as to his ability to meet his obligations, at once proceeds to examine the books. He puts the statement aside, as will be shown later. A statement through intent or incompetency may mean nothing or everything. The credit man at once looks for (a) errors of principle (b) errors of omission (c) errors of fraud. Examples of these as may be suggested by these errors are:

1. The inclusion in the revenue accounts of profits which are not available for distribution.
2. The failure to make provision for invisible wastes or losses.
3. The omission of liabilities in drawing up the balance sheet.

The credit man will first draw up comparative statements and by this method fluctuations can be ascertained and reasons obtained for them.

The padding of revenue accounts in an instalment business for instance, where the whole amount is included in the profit and loss account without reference to the deferred payments.

In a business there should always be a proper and reasonable allowance made for depreciation and for bad debts, yet many houses go to either one extreme or another, both equally faulty of charging off a totally inadequate percentage or wiping the entire plant off at one fell swoop. The suppression of charge accounts such as do not enter into the inventory of merchandise is another point in the statement difficult, if not impossible, of detection. A judgment for monetary damages—a

lawyer's or expert's bill for services—without entry on the books are difficult to locate.

It is when the credit man has had some experience in auditing that he will give serious consideration to the subject of how his debtors conduct their business. He understands then how much systems and methods of conducting every part of a plant has to do with the subject of action in case of a squeeze. Many a concern has been thrown into the hands of a receiver or assignee simply because the creditors wished to give themselves an opportunity to find out where they stood. Proper systems would often render such drastic and expensive action totally unnecessary.

For instance, where a perpetual inventory is kept it is a comparatively easy thing to check up the sales. Without it a checking of the entire delivery and receiving must be made.

Bills receivable is another important element account. Accommodation paper—paper often renewed must be carefully analyzed and noted. Some concerns never charge off a bad debt, but carry it until the inevitable crack of doom.

Theoretically at least, a debt is never canceled until the debtor is a discharged bankrupt—when his estate has been administered—when he has successfully defended an action for recovery—when the statute of limitations intervenes—when he has compromised. This account should be among the first to receive a careful analysis.

The problem of depreciation is a serious one. The best practice would seem to be to write off a percentage of the diminishing value of the plant. It is held by the best auditors that this is best for the reasons:

(a) The plant grows old and the cost of repairs increases.

(b) The value of the machine decreases—the repairs increase.

(c) Therefore decrease the per cent of depreciation and increase the per cent of repairs.

The above method accomplishes the result.

Turning to the retailer for a brief space.

It is very generally understood that the book-keeping methods of the average retail merchant (especially in country districts) are frequently crude and unsatisfactory, so that he is never properly acquainted with the exact condition of his affairs, and cannot tell (so far as his books are concerned) on what he is making or losing money.

The credit man, with a few years' experience, can furnish many interesting examples of cases of this nature, such as the retail grocer, who, thinking he had \$500 to the good, went from a long distance to Colorado to visit some relatives. On his return he found his liabilities uncomfortably pressing, and an investigation proved that he had not made any profit at all.

Carelessness and ignorance in the matter of book-keeping are responsible for numbers of failures in business, a fact so well recognized in Great Britain that the neglect to keep proper books of account has been made a statutory offense. It is quite usual, therefore, for the credit man when approached by a new applicant for credit, to take up the matter of book-keeping with him, and endeavor to ascertain if the system pursued can be depended upon to produce the proper results. If a lack of system is exposed, or an unsatisfactory system described, it is next in order for the credit man to emphasize the importance of efficient book-keeping and explain what changes and improvements it is possible to make. To be competent to perform this part of his duties, it is evident that the credit man should possess a broad working, or practical, knowledge of the science of accounts. It is not our intention, or province, in this chapter to attempt to instruct credit men in the science of accounts. There are various text books on the subject, which cover the ground, and The American Business and Accounting Encyclopaedia is specially recom-

mended on account of its wide scope and the large amount of information it contains.

It is quite surprising to find how deficient in practical suggestions of this kind some credit men show themselves to be who have contributed articles on the subject to trade publications. One article (which we understand obtained a prize) contained some very curious recommendations, such as keeping the accounts in pencil because it is easier to erase than ink, and because by using pencils cheap paper will answer the purpose. The same credit man advocates journalizing direct on the ledger, as this he says "renders the use of a journal unnecessary."

The first recommendation should be unequivocally condemned, because the easier it is to change the figures set down in books of account the easier it is to falsify them. The second recommendation is vicious, because if adopted there is no possible way of proving the accuracy of the records contained in the books except by going over all the items posted to the ledger and tracing the causes which led to the arbitrary postings being made. Surely the retail merchant should be just as anxious to know that his books are correct as any other kind of merchant.

Another credit man says: "The simplest and best system for the ordinary country storekeeper is plain, simple, single entry." From this point of view it is of no importance to the country storekeeper if he overlooks a page or two of charges in his sales record, or if his collector puts part of his collections in his pocket and credits the accounts as paid in the ledger.

We propose to describe three accounting systems for retail merchants, which have commended themselves to us and which appear to be simple, practical and efficient.

The first system may be called the Duplicate Slip System. By this system no books are used for customers' accounts, but only slips in duplicate, kept in folders, one folder for each customer. The slips are ruled and printed

as per Form 1, the name of the customer being written plainly on the front of the folder. When a customer makes a purchase the clerk takes the customer's folder from the filing case, bringing forward the amount due by the customer from the last slip and entering the new purchases underneath as shown in illustration. The footing of the slip will then show the total amount due by the customer, and consequently the balance of the account. The original slip is torn off at perforation and handed to the customer, the duplicate remaining in the folder as the ledger account.

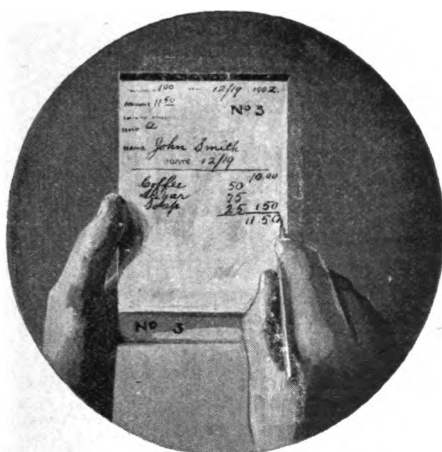
By this plan it will be observed that the making out of the slip and the posting to the ledger are performed in one operation, and nothing in the way of journal, day book, blotter or ledger is required. There is no possibility of goods being sold and not charged; no passbooks are required; the customers always know exactly what they owe, and it is unnecessary to send out monthly statements. The proprietor, or clerk, can easily watch the accounts to see that no limit of credit is exceeded.

A duplicate receipt book should always be used. When a customer makes a payment give him the original receipt and paste the duplicate in the customer's folder, deducting the amount paid from the balance due as shown on the last slip.

The customers' folders taken out during the day should not be filed until the close of the day, so that when the store is closed a recapitulation can be made from them, which will show the total credit sales for the day, and this amount should be entered in the journal as follows:

Accounts Receivable, Dr.....	\$000 00
To Sales Account, Cr.....	\$000 00

These entries will be posted to accounts opened in the ledger, which will contain the epitome of the business. A cash book should be used, with a separate column for the entry of cash received from customers, the total of this column being posted to the credit of Accounts



**The National Cash Register Credit System as Operated**



Receivable account, no journal entry being required. Thus, the Accounts Receivable account will correspond exactly with the amounts of the bills in the customers' folders and the amount of the receipts pasted in those folders, while the balance of this account will agree with the aggregate of the balances shown in the folders:

The folders are kept in filing cases as per Form 2.

Cash sales, purchases, and general accounts of the merchant will be cared for in the usual way and do not need a special explanation.

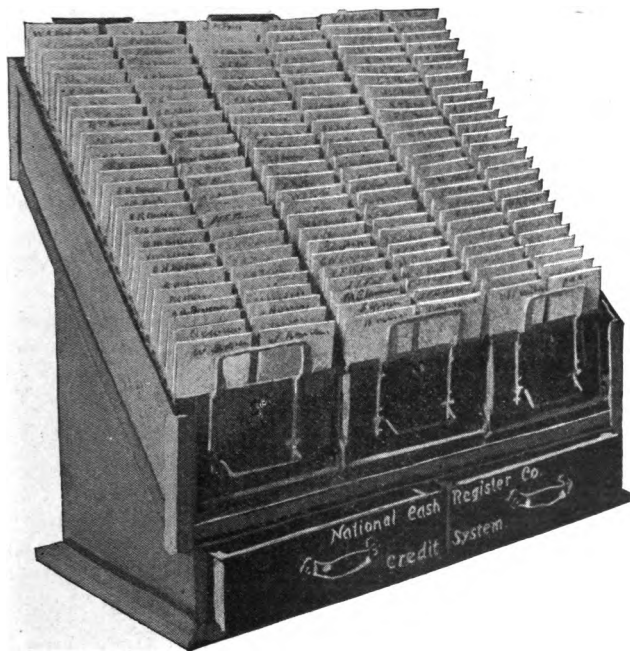
Another good and labor saving method of recording credit sales is as follows:

Coupon books of the value of \$5, \$10, and \$15 respectively, were procured, each book containing a blank note. When a customer asked for credit, he would be asked about how much he would want during a certain period, and given coupon books for that amount. The note is then filled out, signed, and retained. The books contain coupons from one cent up and when the customer makes a purchase the amount is detached from his book. When the note is due, if the book has not all been used, the remaining coupons can be counted, the coupons detached can be paid for and indorsed on the note, and the time extended if desired.

By adopting this plan credit sales become coupon sales, and coupon sales can be treated as simply as cash sales. We have parted with so much merchandise and received coupons in exchange, the coupons being redeemable in cash at the end of each month. A ledger account will, therefore, be opened with Coupons Receivable account which will be debited each day with total coupons collected, the credit being to merchandise (or sales) account in the usual way. As the coupons are redeemed cash is debited and Coupons Receivable account credited, the latter account always showing the amount of customers' accounts outstanding.

The "note" is the record of the coupons issued to customer (it should contain the numbers) and the cus-

tomer's receipt for same. It should be filed alphabetically for reference when wanted, and should be treated as a memorandum, as no useful purpose is secured by entering it on the books, the note not being an asset until



Form II

**THE NATIONAL CASH REGISTER CREDIT SYSTEM**—A System very popular in Retail Stores, by which Sales Slip, Credit Slip, and Sales Record are all made at One Time by Original Entry.

the coupons have been used. A bill will be handed to the customer in the usual way for each purchase and duplicate bill should be attached to the note, thus completing the record of each individual account. A perfect check on the accuracy of the coupon receipts can be

obtained each day by agreeing total of coupons received with total of bills issued to customers.

Another method much recommended is here described:

Provide a pass book for each customer.

Provide a suitable alphabetical file for the pass books, with vowel and other indexical distribution to accomplish instant reference to the book wanted.

Provide an ironclad ordinance that all pass books not in use must be kept in the file.

Have the pass books made in the form of a sales ticket in triplicate, the duplicate and triplicate with perforations to allow of their being detached from the book.

When the customer makes a purchase the salesman enters same in the pass book and hands the duplicate to the customer.

The book-keeper posts the total purchases (not items) from the pass book original, and also enters the account on a sales recapitulation sheet in order to obtain his monthly total of sales.

At the end of the month the book-keeper makes his monthly statements from the ledger and attaches to same the triplicate copies of bills from the pass books.

By adopting this plan all the itemizing necessary is done at one writing by the salesman who receives the order, ledger space is not unnecessarily wasted, and the book-keeper will begin to have a little time to spare in which to make himself useful to his employers.

In brief, the suggestions here point to the value of the proper accounting methods on the part of the debtor, whether retail or manufacturing. The credit man's work is to educate his risks in a proper appreciation of his value.

## CHAPTER. XI

### Capital and Resources

**I**T is of the utmost importance that the credit man should possess the requisite knowledge of accounting matters to be able to distinguish tangible assets and actual paid-up capital in the statements submitted to him by those desiring a line of credit.

It is the modern fashion to incorporate, and as soon as incorporation is decided upon, the promoters, or owners, of the business desire to make as good a showing as possible, and their capital stock to appear as large as possible, with a view to impress the public generally with the importance of the company and the magnitude of its operations. If the capital stock is inflated, however, there must be something to show for it, and it is surprising how many ways have been discovered to add what is commonly termed "water" to the assets.

Should the value of the actual resources be inflated, it is practically impossible for the credit man to detect the fact, but he will generally regard real estate, buildings, plant, mines, and other similar fixed assets in a very conservative manner, and place very little reliance on such items as representing actual value.

Assets, such as Good Will, Franchise, Patents, Copyrights, etc., he will discard altogether, while Bonus, Development, and accounts of that class will probably never appear on the customers' statements as to their business conditions.

Some of the problems which the credit man may be

called upon to unravel to his own satisfaction and that of his employers, may be illustrated as follows:

There are cases where the promoters of the company divide the capital stock into preferred and common. The preferred stock they place upon the market for sale, offering to each purchaser a certain number of shares of common stock as a bonus. This is a perfectly legitimate proceeding, for the reason that preferred stock is guaranteed a certain dividend so that the promoters of the corporation say to the intending purchaser—"If you will invest in this enterprise we will guarantee you a certain dividend per annum, and should the business earn more than sufficient to pay a dividend on your preferred stock you will participate through the common stock given you as a bonus."

This is altogether different from the procedure in the case of what may be called the Anti-Consumption Remedy Company. This company is organized with a capital of five million dollars, the promoter selling his anti-consumption remedy to the company for the sum of four million dollars, payable in stock, the remaining one million being placed on the market for public subscription.

The first hundred thousand dollars is offered at \$10 per hundred dollars share. The second hundred thousand dollars is offered at \$20 per hundred dollars share. The third hundred thousand at \$30 per hundred dollars share, etc., until the last hundred thousand dollars is expected to be sold at par.

The working capital is supposed to be derived from the sale of this stock, and dividends are guaranteed on the amount actually paid. For the purpose of compiling statements to be presented to the public, or to the credit man, the discount on stock sold is debited to leasehold property, where it is completely concealed. The amount actually received is debited to cash.

This method is rank dishonesty, and is described

herein in order to show some of the difficulties with which the credit man may have to contend in examining statements.

The methods employed in opening books of account in the mining industry show very similar conditions. The actual value of a mine cannot be estimated with any accuracy, so that in floating a mining corporation, the promoters place a good round valuation on the property, such as in the case of the Rothwell Mining Company, which organized with a capital stock of three million dollars. The mine is valued at two million dollars, at which price the owners sell to the new corporation, taking their payment in stock and placing the balance of the stock on the market to provide working capital. The stock is offered at ten cents on the dollar, and the discount on stock in this case stands on the books under the heading of Treasury Stock, which would lead anyone to suppose that this stock was actually on hand and salable, whereas there is no value whatever attached to it. In addition to this, as the stock is sold, it is expended in construction, to which account promotion expense has also been debited.

We will now consider the liability side of the statements presented by intending purchasers, where interesting peculiarities may also be discovered.

The capital itself has been fully discussed above, but there is sometimes an item named Working Capital which should be very closely scrutinized when it happens to appear. Like bonus, however, on the asset side, we imagine it is only the most truthful of business men who will ever allow such an item to show. Working capital is, of course, represented on the asset side of the statement by some resource, supposedly cash, but the cash is usually obtained by means of a loan.

Liabilities, or Bills Payable, should also be carefully looked into in order to ascertain if same are in the regular way of business for merchandise purchased, or for loans.

When it appears from an examination of a debtor's affairs that he is in the habit of making loans, the credit man's suspicions will naturally be aroused, as loans are generally obtained at a rate of interest much in excess of the cost of ordinary business credit.

A liability on notes discounted may conceal an extensive system of accommodations.

Overdrafts are a very unhealthy sign, but are not liable to be mentioned on the statement.

Taking everything into consideration in granting credit, it is not safe to place too much reliance on statements submitted to the credit man, although a certain amount of information can generally be obtained therefrom. The information thus secured must be verified as far as possible from other sources, such as the regular mercantile reporting agencies; and if their reports correspond to a reasonable extent with the figures of the statement the result may be considered fairly trustworthy.

The relative proportion of cash capital to the needs of a business should always be carefully considered, and this differs greatly in businesses of different kinds. A retail cash business can be successfully conducted with a capital of small dimensions, while a wholesale grocery store granting long credits requires a correspondingly large capital. An instalment house requires a considerable amount of capital with which to carry its instalment accounts, and a dealer in expensive furniture must necessarily turn over much larger amounts than his humbler brother in the same general line.

## CHAPTER XII

### Cost of Production—Its Relation to Credit— Fictitious Profits.

**W**HEN a manufacturer applies to his bank, or to the source of supply of his raw material for an unusual extension of credit accommodation, either as to the amount or time, the first question asked of him will be this: Are you doing a profitable business? To this the answer must necessarily be in the affirmative else little or no consideration need be expected. Having been answered in the affirmative the further inquiry will be: Why, then, doing a profitable business, do you find it necessary to ask an extended line of credit? To this question there may be many answers, each one possibly giving a legitimate reason. When a really just and legitimate reason for credit exists it will usually be found, however, to be the attempt of the manufacturer to swing a larger trade than the amount of his investment will warrant—in other words, he hasn't money enough to carry the necessary outstanding accounts on the one hand or the necessary amount of raw material and finished stock on the other.

This condition may have come upon him so gradually that he finds himself embarrassed in meeting his obligations without having had any realizing sense as to the trend of events. In some lines of manufacture a year's supply of raw material must be purchased during the season—sometimes even two years' supply. This makes the purchase price of a sufficient stock a serious matter espe-



cially in the case of a very rapidly growing trade such as we sometimes find.

When a manufacturer finds himself in this condition he must get accommodation which will enable him to carry on his trade and meet its requirements. Three courses are open to him: He may borrow money, get credit extensions from those who sell him, or take in additional capital by selling an interest in his business. In either case the credit proposition is the same, for in the third instance the prospective investor becomes a credit man investigating the probability of a return on money invested.

The investment of more money either in the shape of a loan or an investment by a purchaser involves an audit of the business. Not only an audit of his accounts but an audit of his real condition both present and prospective. This involves a complete analysis of his business. He must be in a sound condition, of course, so far as his outstanding accounts are concerned—any credit proposition would involve this—but in his case there is something more: *a question of cost of manufacture.*

Possible or probable sales, both as to amount and price are, of course, a factor, as in every other case. Selling expense is another item for careful investigation, but back of these questions is still another: What does it cost to produce the goods for which we have assured ourselves that a demand exists? Can this cost be reduced or, at least, may we be assured that it will not be increased to a point which will make the venture an unprofitable one both to the debtor and the creditor?

Credit is a question of ability to pay coupled with an intention to pay. Both ability and intention must be assured to make credit a safe proposition. Many a manufacturer is self deceived, and as a consequence he deceives his creditor (present or prospective) although his intent is to be perfectly honest in his statements. This possibility of mis-statement of assets or costs is the

cause of the necessity of a complete analysis of the business.

Certain risks are involved in every credit proposition even after the most rigid investigation has been made and the most thorough assurances of soundness received. It is the business of the credit man to reduce these inevitable risks to a minimum. The manufacturing enterprise in question must show its ability to produce the saleable product at a proper cost and it must also show by its cost records that its books do not show false profits either intentional or unintentional.

The question will now arise as to how we are to demonstrate to our entire satisfaction a proper condition as to the above situations. The credit man may, very possibly, be entirely unacquainted with the technicalities of the line of business under investigation. This will almost certainly be true if the investigation is made by a bank. How then is he to arrive at accurate conclusions regarding these points? The answer is: Through the showings made by the cost system. If the cost system employed is correct in principle and complete in execution it will answer his question.

There is an old saw which says: "Goods well bought are half sold." Unlike some proverbs, this one has the merit of truth. A merchant must be a good buyer—must "buy right"—as the usual phrase has it, to make a success. The merchant's purchase price is represented, to the manufacturer, by his cost of manufacture.

To show a false profit or a false financial condition, something must be misrepresented—over-stated. Perhaps the value of plant or machinery is placed at too high a figure. Perhaps overly generous profits are shown by an underestimated cost, the discrepancy being taken care of by the over-statement of good will, patents, process, etc. All this will be shown by a proper cost system.

An appraisal may be necessary to determine whether the plant investment is over-stated. We will assume that the credit man has assured himself that a profitable business exists, with good prospects for its future continu-

ance, provided there is no over-statement of liability. After applying the usual tests and auditing the accounts of the concern there remains to be decided the question as to whether the stated value of patterns, processes, patents and completed stock is correct. All these the records will answer if the cost system be good.

To fill its requirements the system must show three things in connection with the cost of a given product, (a) its cost in raw material, (b) its cost in labor, (c) its cost in expense outside of the two items above. To do this the system must provide for a rigid analysis of expense. Now the cost of a pattern, a process, or a patent is a part of the expense attached to the production of the article covered by the patent or process. We will say, for instance, that there appears among the assets a large item showing the value placed upon a patent or process. The credit man must first know where and at what price the patent or process was obtained. He must then estimate its probable life, that is, the period during which it will be valuable. He must then assure himself that a proper provision, by means of a sinking fund or otherwise, has been made for retiring its cost in due time. The cost system analysis of expense will show him how much, if any, of the original cost has been charged as expense against the produce resultant from the process or patent, always bearing in mind that the major portion of the cost should be borne by the earlier period of its life as the usefulness of patents and processes of all kinds is greater during that period.

At times it will be found that a large portion of the assets of a manufacturing concern consist of patents, good will, etc., still estimated at their original cost or near it, very little if any of the amount having been charged against previous production. Naturally this shows an entirely false condition, so much so that at times it will be found that liquidation would leave the concern in a bankrupt condition instead of the prosperous one as shown by the books.

Patterns are another frequent cause of false entry.

Here the cost system again comes to the credit man's aid. Patterns represent an outlay—an expense. When a pattern has been constructed, no matter at what expense, its permanent value depends entirely upon the future use which can be made of it. The cost system should show just why it was constructed and just where the expense was placed. To construct an expensive pattern for a special job and then enter the pattern as an addition to the permanent investment is to again show false profits.

Within certain very narrow limits there will be little difference shown in the labor and material costs incurred by different concerns manufacturing a given product. Any wide variation, should a wide variation exist, will be found to lie in the expense account. The cost system's function is to so divide the expense account that every penny expended will be charged against the proper item of production. If the expense account as shown by the books is one thousand dollars, during a given period, the cost system must show that the same amount is charged against production during that period—less the amount borne by the sales department.

In conclusion: The absence of a cost system may not necessarily mean that a manufacturer is in a condition precluding success. It does mean, however, that it will be hard for the credit man to arrive at the real condition of affairs for he cannot tell with any certainty that the goods produced cost more or less than the safe figure that indicates safety.

Therefore, a proper cost system is essential to a scientific basis for credit.

## CHAPTER XIII.

### Instalment Accounts—Their Credit Value—How to Handle Them in a Credit Department

**C**ONSIDERATION of credits and collections in an instalment business involves some problems which are entirely different than those found in ordinary lines. Like every other line, it is assumed that prices will cover expense, loss, cost and profit. The margin of profit must necessarily be higher than in ordinary merchandising both on account of the possibility of greater losses through uncollected accounts and on account of the extra cost of handling collections and sales.

Persons assuming instalment payments are usually without any real basis of credit, that is, they seldom if ever are possessed of property which would be liable to seizure for indebtedness.

An instalment purchaser usually depends upon earning capacity for money wherewith to meet instalment payments. The first consideration in the credit problem therefore is: Is the prospective purchaser's reputation good as to prompt payment of bills. This is easily ascertained from the retail tradesman, to whom we will refer. Should there be any hesitation in giving references of this sort the seller will do well to redouble the caution with which he investigates the risk, as the reluctance to name references is suspicious. One who has been slow with others will almost certainly be slow in payment of your account.

The second important point is the probable perma-

nence of the employment or income of the prospective debtor. As earnings are to be depended upon to meet payments, it is well to know as far as may be, that the earnings will be constant. Having determined these two important points to our satisfaction, we determine to sell a bill of goods to the applicant.

The tendency of an instalment purchaser is to over-buy. A purchase involving a payment of ten dollars a month for ten months is looked upon as ten dollars rather than as one hundred dollars. The tendency is to over-estimate ability to pay. Ability to spare from the usual income, ten dollars monthly is taken as the standard without consideration of the possible occurrence of an unusual situation which will make an immediate payment of ten dollars look like an impossibility.

At times it will be found that the tendency to over-buy must be checked in order to keep the payments within such limits as may enable the purchaser to care for them easily. A careful consideration of all the available information is necessary in every case in order to be assured that circumstances will not put it out of the power of the debtor to make payments regularly a few months hence.

Instalment sales are made as a rule on contracts which leave the title to the goods in the hands of the seller until the full price is paid. Sometimes a chattel mortgage is given as security. The laws of various states vary greatly as to the terms of legal chattel mortgages and legal contracts of this sort and it will be necessary for the credit man to make a careful investigation of the legal aspect of each in every state where he does business. In at least one state a return of the goods sold can not be forced under the terms of the contract unless the full amount already paid be first refunded. Even where resumption of the goods sold is possible, such action is not desirable if it can be avoided. It is only a last resort at best.

Depreciation in value is enormous on most of the goods which are sold on instalments and even though the

amount already paid should be retained to cover the loss occasioned, the balance would usually appear on the wrong side. In addition to this the taking back of goods once sold has a bad effect upon the reputation of the concern taking such action. This is not just, but it is nevertheless true. Almost any action is therefore preferable to a resumption of the goods and the creditor will do all in his power to keep an account alive even though delinquent.

Because of the fact that the debtor depends upon his earnings for his payments it is necessary to keep a careful watch upon each account, making demands for payments at the time when the debtor may reasonably be expected to have money—that is on “pay day.” Unremitting attention is absolutely essential to a successful handling of instalment accounts. If the debtor is allowed to let his payments get behind it will be found difficult to get him to catch up. Should you allow him to overlook your payment due he is all too prone to apply the money which should have been yours, to some other purpose and when he hasn't the money he cannot pay. Should you be remiss in collecting he will certainly note the fact and be inclined to place too little importance upon the necessity of keeping up payments promptly.

Assuming that the risk is good and payments on account are promptly made for a time there is always a possibility the circumstances will prevent the prompt payment of instalments at some certain time. It will be found the part of wisdom in some of these cases to arrange to grant the debtor an extension on his account in order to enable him to skip a payment without making his account appear on the delinquent list. This may be done by renewing a note—if the account is held in the shape of notes or by any convenient means. It is desirable to do this with a debtor who is inclined to be prompt when he can be, because it is inclined to make him feel under obligations to the creditor, which is a prime factor in causing future promptness. More than this, your

current accounts which are paid to date as they come due cause you much less trouble and annoyance than the delinquent—hence it is well to keep your delinquent list down to the lowest limit. To the end that no account may be overlooked it is well that instalment accounts be arranged in such a manner that attention is called automatically to each account at the proper time. For this purpose a “card” or “loose leaf system” is the best, for it adapts itself most easily to the purpose.

If each account is entered on a separate card, the card can be kept in such an alphabetical or geographical order as may be deemed best. If collections are made by mail the alphabetical arrangement or arrangement by name of customer will be most convenient, but if collectors are relied upon it will perhaps be found best to arrange the cards in the order in which the collectors will call upon the debtors. A set of instalment accounts usually receives attention at regular periods, that is, payments are made weekly or monthly.

A good plan in handling such accounts is to print across the top of the card a row of figures from one to ten putting the various numbers at equal distances from each other. Each space represents three days and the exact time when an account should next have attention is shown by a metal “tab” or “marker” placed over the proper number at the top to the card. These “tabs” can be purchased at any stationers. The manner of applying them is here shown.

1	2	3	4	5	6	7	8	9	10
NAME									
ADDRESS									
<p><i>This space to be ruled according to individual needs.</i></p>									



As the tabs or clips project above the top of the cards it will readily be seen that the cards to receive attention at any certain time will be represented by a straight row of clips. When a statement is drawn off from any account the clip is moved to the proper point to indicate the next date for attention. Treatment would be the same whether the accounts were placed in collectors' hands or were handled by draft or through the mail. When we place an account in our collectors' hands we assume that it will be paid on or before a certain date. The clip will indicate what that date is. If the account is not paid at the time specified it comes up automatically for attention.

When an account or an instalment is paid the amount is credited on the ledger card and the clip moved to indicate the date for the next payment. When a payment is missed the account becomes delinquent. Here arises the question of attention. Suppose the debtor to be in such shape that he cannot make this particular payment.

He will probably be able to make the next and succeeding payments in regular order, but it will manifestly be impossible for him to make two payments at one time. There seems to be little chance that he can "catch up" on the skipped payment. What, then, shall be done? Shall we consider him a delinquent until the account is closed or shall we grant an extension on the one payment in arrears. For reasons previously stated there can be no doubt as to the latter being the wiser course.

Never give offense to a debtor under any circumstances: More flies are caught with molasses than with vinegar. This applies to every class of collections but most of all to instalments. Your debtor's good will will help you wonderfully in collecting his account.

A resort to legal process is a slow, expensive and unsatisfactory way of making collections. Put it off as long as possible or as long as seems wise. Never threaten legal action until you are prepared to carry out your threat. In conclusion: To succeed in making satis-

factory returns on instalment accounts, eternal vigilance is necessary. A good account may easily be turned into a bad or at least a doubtful one by a little inattention at the proper time. Insist on prompt payment or a good and sufficient reason for failure to pay.

## CHAPTER XIV.

### The Selling Organization's Relation to the Credit Department

**T**HE salesman must sell goods. In most concerns he is not asked to do anything else. In such concerns the selling force is distinct and separate from the rest of the organization, and its members know little or nothing about the "men inside."

Under the old fashioned arrangement the salesman "with an established trade" was the much-sought and much-pampered "outside man." He lorded it over the house and indulged his customers. The credit man held him in awe, for imagine, "Suppose Jones were to leave! Perish the thought! He did fifty thousand dollars' worth of business last year." No doubt Jones was paid well; he had to be. He knew his worth, Jones did. "He could get another job any time he wanted it," and this happy assurance made him assertive to the degree that "he would leave unless his customers were treated right."

He was in the anomalous position of being paid to sell goods for a firm to customers whom he really represented in all disputes with his house.

We shall not attempt to settle that ancient quarrel, i. e., "Does the house make the salesman or the salesman the house?" For one reason, because the conditions that made such a question are rapidly passing away. Time was when the salesman traveling a certain territory for a long time and to a large extent dictating the line he

handled, and having brains and stamina, could virtually obtain control of that demand for his line. Houses were known as "Mr. Smith's house," or "Mr. Jones' concern"—the house came but seldom in touch with its customers, except through the salesman. Retailers came to the city infrequently and came to look on Smith and Jones as helpers and counselors in time of need.

The salesman was the sole source of communication.

He was important and he knew it, and waxed more or less arrogant as the bulk of his business grew, just as salesmen do nowadays in this more enlightened time. By and by, however, the manufacturer or wholesaler realized the value of bridging the distance between house and customer. The house started in to make customers, by getting acquainted with its trade. It adopted a "policy." About the same time the "blind" price ticket went out of existence in retail stores, and salesmen were thus deprived of an opportunity to grant "special prices" to their trade, thereby cementing the ties of friendship through favors granted. This "policy" was the best goods at a fair price and on liberal terms to all. The house adopted advertising as a means of familiarizing the trade with the new idea.

Such a "policy" had a hard row to hoe. Salesmen with "established trade" fought it tooth and nail, for they saw the day of special privileges going and the day of a fair field and no favor coming. A salesman cannot long control an "established trade" when his customers can get as good from the house as they can from him. It is not to be denied, however, that there are always big men who can take a proposition and terms on which ninety-nine men will do but poorly and make a large comparative success. This, however, is a matter of individual ability and not a matter of principle.

Salesmen have come to understand, too, that a proper policy as to prices and terms makes selling easier, provided the goods are right.

Not a jot of the old pride in their trade is lost in

the process, but they concentrate on selling goods and making them stay sold.

The retailer knows this and welcomes the change. His acquaintance with the house is now more than a mere acquaintance with Mr. Smith and an occasional letter from Mr. Brown, the credit man. He feels the grip of personality—he feels the force of a system, a policy behind all this demand on him for this firm's goods. He understands that the public wants this concern's goods and that he must keep the public satisfied.

The salesman tries harder to hold his job, because he knows that it is going to be hard to swing his customer to another line when his customer's public is demanding this certain product.

Given such a condition discipline is possible. Houses owning their demand can have the pick of the up-to-date men in every department. They can get prices and they can get terms—they can pay salaries.

This fixing a policy has borne fruit in one conspicuous line, i. e., that of clothing manufacturing. Ready-made clothing is better in style, finish and materials than it has ever been in its history. Who are responsible? Such firms as Hart, Schaffner & Marx, Rogers, Peet & Co., Stein-Bloch Company, B. Kuppenheimer & Co., and Kirschbaum & Co.\*

These firms have become so intimately associated with their demand, i. e., the wearer, that retailers find it unprofitable to fight them, except as they fight "H. S. & M" clothing with "Stein-Bloch" and so on. It is in this condition the salesmen of the respective houses get their opportunity.

"Look at our styles—our workmanship—our materials—and then, remember one thing, we create your de-

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\*It is estimated that Hart, Schaffner & Marx do \$6,000,000, Rogers, Peet & Co. \$5,000,000, the Stein-Bloch Company and B. Kuppenheimer & Co. \$5,000,000, Goldsmith-Joseph-Feiss Company \$3,000,000, Brokaw Bros. \$3,000,000. If the so-called retail manufacturers would push their wholesale business by means of advertising and salesmen they would probably double their sales.—*Men's Wear* (Trade Organ), Sept. 23, 1904.

mand. We spend so many thousands a year educating people to know what good clothes are, to ask for our label. We furnish you with the best advertising high priced specialists can devise"—says the salesman. The policy wins—it is not so much a question of terms, price, it is a question of sales. This same principle is spreading to other lines. Mince-meat has its brands, crackers its "Uneeda Biscuit," pickles their Heintz, and so on down the line until everything we eat, and everything we wear, bears a trade-mark more or less known the world about.

The house has a policy with regard to selling its goods.

The salesman knows that he cannot juggle with terms of contract.

The credit department should be consulted in the making of all terms of contracts. It is not so much that we want orders or debits on our books, as we want to be paid for the goods we sell.

The salesman wants to sell lots of goods: the house wants him to sell lots of goods.

The credit man wants him to sell *lots of goods that will be promptly paid for*.

The credit man in the past has made the mistake of knowing too little about the conditions of the territory in which salesmen were traveling. The credit man too often considered it the best policy not to become too intimate with the salesmen. He said it made it easier to turn down poor credit orders.

The sales department and the credit man were too often at sword's points, due entirely to a lack of policy. When a house has a policy personalities become of less concern and cut less figure, as has been shown in the foregoing.

The sales and credit department are indeed complementary to each other. They should work hand in hand to obtain the best results. In houses where policy reigns this condition exists. Salesmen are taught in such houses

the basic principles of credit and sound finance. They are initiated into the mysteries of team play, by which the entire force of brains and physical energies of the organization can be concentrated to produce profitable results. The old method of individual play is discouraged. The whole force must work together for the common good. At first it may seem that the dullest sets the pace, but this is soon remedied by a proper system of records by which these dull ones are weeded out and their work given to new good-and-quick men.

This produces an *esprit de corps* in the force that makes things move. When the credit man has caught this principle he mingles with the force; he comes to know their quality of individual judgment and to estimate their usefulness to him. The salesmen come to understand that the granting of credit is not a matter of caprice or physical condition, but a matter determined by fixed processes.

The credit man, however, who cannot fix his standards of credit, and reduce them to a policy, has little chance of obtaining the best out of his selling force.

The credit man must, however, reduce his relations with the selling force to a system, else he will always be at the mercy of unforeseen conditions and unanticipated questions. Having had considerable experience in investigating business methods of large concerns, doing business over large areas of territory, we are convinced that the prize method is the best. It is easy of operation and has the great merit of requiring the credit man to keep a system as well as counterchecking the salesman's attempt to oversell.

Giving prizes to the salesmen who had the least number of disputed accounts, to those who showed the largest average of prompt pay according to terms, to those who had the fewest cancellations, has worked well in a concern doing over ten millions of dollars of business a year in sales from \$25 to \$575 each.

In addition the credit department offered special

credit information prizes, to the salesmen whose reports showed the greatest fidelity to facts in the year's business.

These reports were carefully tabulated and the salesmen were kept informed from month to month of the condition of their averages. These reports were sent to the entire force. Under such headings as: "These Had Accounts Transferred to the Collection Department;" "These Had Extensions Made on Past Due Accounts;" "These Have the Smallest Percentage of Past Due Accounts;" "These Have Clean Records to Date;" "These Had Cancellations," the salesmen found their business records shown to the entire force.

It made them more careful; it made them anxious to get into the "clean" column.

Every now and then the credit man should give a little personal talk to the selling force. He should tell the men *what* he wants, and *why* he wants it. Talks on "Cancellations" from the sales manager and talks on "Terms;" "Poor Pay;" "Their Neighbor's Opinions" and similar subjects by the credit man will do a lot of good and at worst no harm.

We hear the old fashioned merchant say, "Oh, that's good enough, but I expect my salesmen to do that anyhow; if they don't, I fire 'em."

Yes, but what good does it do to "fire 'em?" Salesmen are but pawns in the game. It depends how you use them how far you go. What you expect from a man and what you get, are two different things. You get what you give, plus what the salesman can add.

The problem is to keep salesmen keyed up to their highest pitch of effectiveness *all* the time. Any manager of men knows how hard this is to do.

"Hot air" will not do it.

The systems in the selling department must be effective. Orders must be passed promptly through the credit department, and then the collection desk is interested in seeing that the terms are fully met on the part of the house itself. If goods are held up—if shipments



are made contrary to orders—if substitutions are made, the collection desk has no right to expect prompt payment of accounts. It is the worst sort of folly for a credit man to enter a black mark against a customer who takes extra time in paying for delayed shipments, or who refuses to pay for goods not according to order, for the credit man should understand that his house, as well as the debtor, can be in the wrong. A credit man needs judgment in such matters. The selling department should be required to use pro forma orders. All conditions of an order should appear on the form. Salesmen will “kick,” but it will prevent trouble, even if it does make it more difficult to get orders. Some managers may not be able to see the value of this, but it requires no argument to those who conduct the most profitable and safest concerns, where the salesman is considered a very important part of the business, but is not treated as if he were the arbiter of its life or death.

On another page we reproduce a form of Salesman's Credit report covering the essentials he should deal with. This report should not be treated so much as a basis of credit extension as a basis for credit investigation. The salesman should report on possibilities as well as customers, for then the credit man has an opportunity to find out the facts before an actual order is handed in. In some houses the system is for the sales department to pass special names of the possible buyers through the credit man's hands for report before the trade is solicited. This method saves trouble and wasted energy on the part of the salesman. A story occurs as we write, which, to a degree, illustrates the advantage of prior information.

On one occasion, a salesman selling dry goods in Indiana sold a large bill of goods to a new customer, and in his report gave the gist of a conversation he had with the manager of a wholesale house who handled another line of goods, in which he gave the new customer an unusually high standing for good pay. In analyzing the report, it was found that this manager's report did not

agree with certain information received from legal sources. Upon investigation it was found that it would be necessary to ask the new customer for a two name paper, and when the note was forthcoming, it was found that the manager of the wholesale house was the other name, showing that this manager had an interest in the new customer's business, explaining thereby his unusual report on the business.

The salesman may never be a good credit man, but he is an excellent collector of credit data, especially if you do not expect him to do too much of it. Some excellent suggestions relative to means and methods will be found in the chapter devoted to credit information.

## CHAPTER XV

### Getting the Money, Letters, Salesmen or Collectors

**T**HE end and aim of the credit department is to get the money. Scrutiny of credits is merely to assure ourselves that we will get it when it is due. No small part of the department's machinery is devoted to just this duty. Hence it is the all-important function. In getting our money we must assume that the debtor wishes to pay. The first consideration then, is, how does he prefer to pay our account? Has he expressed a preference? If he has, it must be respected, otherwise he feels insulted that his preference is not heeded and a disgruntled customer is a bad asset and a hard man to collect from. We have these methods of collection:

Voluntary payments.

Personal collections.

Collections by draft.

Direct remittances on request.

The first of these requires little or no consideration as the man who makes a voluntary remittance upon receipt of his statement is usually the "always-prompt" man who needs no watching and no "prodding." The second needs but brief mention, as he will fall into a special class when the collector reports his inability to collect upon his return from a personal visit. Where the collector's trip is an extended one it must be made a positive rule that uncollected accounts be reported back to the office immediately upon failure to collect. The

report will state why the payment was not made and the account will become one for special investigation, at once, such action being taken as may seem desirable or necessary.

The collector should be fully and thoroughly instructed as to just what inquiries to make regarding a man who does not pay in order that there may be no unnecessary delay in taking the appropriate action regarding the account as soon as it is reported back. Drafts should never be made upon a debtor without due notice. Where an objection has been made to this form of collection they should not be made at all, as their use is of no value. Where no previous objection to them has been stated, a notice may be made on the statement as follows:

“—Unless otherwise instructed or unless your remittance reaches us before that time we shall take the liberty of drawing upon you on Jan. 2nd, 1905, for \$312.50. Kindly arrange to honor the draft in due course.”

This notice will, in many cases, bring either a remittance or a definite statement as to the debtor's desires as to payment. Many prominent business houses have a certain date on which they pay all current bills. When an order is accepted from them it is accepted with the understanding that this date of payment is acceptable and it will be necessary that the collection department is careful not to demand payment at other times.

Custom varies as to protest on refused drafts. It would sometimes seem advisable to protest a refused draft of which ample notice has been given as a protest tends to make the debtor more careful in his attention. A returned draft will usually bear on its back a notation as to the reason for its return. This reason should be carefully noted as it gives a text on which to hurry a letter to the debtor. The question as to the deposit of drafts for credit to account at the bank is merely a mat-

ter of personal convenience and need not be considered here.

The last form of payment to be considered is perhaps the most important of all: The payments made direct as a result of direct personal appeal to the debtor, by means of letters. It sometimes is said that the art of writing letters is a lost art. To look over the average business communication would seem to go far toward supporting this statement, for one letter is usually as like another as the traditional two peas. A business letter should be short and terse—that is admitted—but it should not be so short as to be brusque or blunt. Many a man who prides himself on the frankness and plain-spokenness of his letters is flattering himself. He is not frank and open. He is simply blunt. Any letter should have character—a character which would almost identify it to the familiar eye even though it had no signature. This does not mean that it should be fixed in form or stereotyped in expression. The contrary should be true.

The correspondent is usually a busy man. Perhaps a very busy man. He is too prone to fall into set forms of expression just because he is so busy. A large part of collection letters are written to the same set of people month after month. The man who is slow this month was slow last month—will be slow next month. You wrote him on the same subject last month or last week. If your letters are of the “cut and dried” sort they will soon present a familiar face to him. He will cease to allow them to stir him up. The usual fault of a collection letter—or of most other letters for that matter—is that it entirely lacks the grip of personality. It does not in the least sound like what you would say to your correspondent if you had him in your office, talking to him face to face.

A letter is merely a convenient means of saying something to a man whom you cannot reach in person just at the time. It should say to him, as near as may be, just what you would say in person. It should convey

as much as a letter may of the personal element you would infuse into a conversation.

A collection letter or a "dunning" letter as it is more commonly called, should be the most carefully worded of all letters. A personal request for payments must be made with tact. A letter for the same purpose must be even more tactful. Most people are more or less sensitive upon this particular subject. The more justified the demand generally the greater the sensitiveness.

You are particular as to the manners and appearance of the man whom you select to represent you. You should be no less particular about the letter used for the same purpose. Your letter is your personal representative. See to it that it is a worthy one. Be natural in your collection letters. Avoid stilted phrases and conventional expressions. Use your own mannerisms if possible especially in writing to a man who knows you personally. Say just what you would say yourself and say it in as nearly a conversational style as you can.

When you write to a slow pay customer it is because his account has been brought to your attention as being in more unsatisfactory shape than it usually is. You are studying the condition of his affairs. Consider at the same time his personality and write him having that personality in view. Suppose Mr. John Brown of Ransom has allowed your draft to be returned without comment. The ordinary letter would read something like this:

Sir,—Our draft of June 1st has been returned by your bank. Kindly let us have a remittance to cover the amount, \$312.50, by return mail and oblige, Jones & Co.

Instead of the above style suppose you say:

Dear Mr. Brown,—Your bank has returned our draft for \$312.50 which we drew in accordance with our notice. You did not object to the draft when we wrote you so we took it for granted that you were willing we should draw. Perhaps the bank sent the draft to us

without saying anything to you. If this is the case we will send it back through another bank. We will await a response from you as we do not wish to take an action which will be contrary to your wishes. Please let us hear from you promptly. This balance, for which we drew is much past due. Please make a special effort to take care of at least \$200 of it at once if you do not wish us to draw upon you. Yours sincerely."

The suggestion as to a partial remittance is made only in the case of a debtor in whom you have confidence and whom you know could not pay the full amount of the bill without serious inconvenience.

While conciliatory letters are strongly recommended, there must come a time in the history of each account when a positive understanding is necessary. It will not do to allow an account to run on indefinitely without a settlement. If nothing more, the credit department should get the debtor's O. K. on the account. To do this, an itemized statement, should be made out, showing each debit and credit entry since the last actual balance shown on the account. This statement should be made in duplicate. One copy should be left with the debtor and one copy, preferably the original, returned to the credit department, indorsed as follows:

"This statement showing a debit balance of \$1,381.45 accepted as correct. Sept. 1st, 1905," with the debtor's signature added.

This will go far toward preventing possible disputes regarding the account when final settlement is forcibly urged. Without it, all manner of claims as to incorrect entries, old allowances, deductions, etc., may be made, thus causing annoying delays and much trouble.

When an account is finally certified in this manner it is in shape for any action which may be deemed advisable. If it is necessary to place it in an attorney's hands for collection the process will be greatly simplified. Sometimes it is possible to get the account into the shape of notes, secured or unsecured. The former will be got-

ten if possible. By doing this it is often possible to keep the account on a cash basis so far as current purchases are concerned. This will eliminate the old account from the problem of present credits and it is possible to make partial collection from time to time on the notes, handling them as a separate matter.

When an account has been put into notes there is no excuse for dilatory payments on current account and absolute promptness should be insisted upon. In addition to this the notes are held as a means of inducing the debtor to confine his purchase to your concern alone as he cannot expect that the old account will be carried along by you while his cash purchases go elsewhere.

In writing letters to delinquent debtors it is not advisable to make excuses. The money is due. It should be paid. The debtor knows it also. Excuses merely weaken your appeal. Suppose you wrote him saying:

"We would appreciate a liberal remittance at this time as we have heavy bills to meet and must rely upon you to help us out."

The debtor is left to infer that you would not ask him to pay the sum due if you were not hard pressed yourself. In other words, he assumes that you are perfectly willing to carry an overdue balance for him, so long as you are financially able to do so, which is by no means the case as a usual thing.

When writing to a delinquent debtor you will have before you the details of his account. Let your demand upon him be definite. In all probability you will have decided upon a credit limit past which you do not intend to go. Make your demand in such terms that he will clearly see that he must remit a certain amount within a certain time if he expects to have future orders filled. In all collection letters the credit man will be between the two horns of a dilemma. If his demands are not strong enough the result in the shape of remittances will be disappointing. If they are too strong he will risk



losing a customer. To steer a middle course—to get the money and save the customer to the house is the end and aim of his labors. His success is measured by that alone.

A good salesman is more than likely to prove to be a poor collector or, at least, not a brilliant success. The two functions seem to require different mental attitudes. The salesman must necessarily be an optimist. He must view everything in a favorable way. The collector acts as a damper, a wet blanket, as it were.

The salesman is prone to consider that he goes outside his duties when he acts as collector. His attitude is that he is doing some other man's work when he does make collections—work for which he is not paid but someone else is.

If we admit, as I think we must, that collections interfere, even in a slight degree with the salesman's performance of his legitimate function, selling goods, it is much better to relieve him of the duty allowing him to confine himself to salesmanship.

It is almost universally the case that there is keen competition for the trade of a "slow pay" customer. This is particularly the case with the man who is classed as "good but slow." This means that our salesman will be sadly handicapped in selling him a bill of goods for he will always have in mind the statement he must present later. On the other hand, the customer will be wary of buying freely when he has always before his mental vision the demand for payment which he knows is forthcoming.

When the collections are made by any of the various possible means direct from the home office the salesman can put himself into much closer personal touch with the customer than he could. The customer will voice his complaints against the collection department, thus allowing of a much clearer insight into the real state of affairs than would otherwise be possible. The salesman should be carefully coached and trained in

this, as, by being on the spot he can learn many things which would otherwise remain unknown.

One of the strongest assets a concern can possibly have is a strong personal connection between itself and its customers. This connection personal contact will bring about more quickly than any other means. Continuous personal contact is usually possible in no other way except through the salesman who acts as the visible representative of the concern. Should Mr. Customer pay a personal visit to the head of the office, he will be personally taken in hand and entertained by the person most available. The entertainment may take any form suited to the habits of the house and the desires of the customer. That part of it is of little consequence—the point is just here: His entertainer will not, if he is wise, broach the subject of payments at all. If the customer brings it up the entertainer will say: "Oh! that's out of my line. I shall have to refer you to Mr. Jones our credit man. Come over and I'll introduce you."

If this is commonly the case with successful concerns (and I think all will agree that it is) why should we try to saddle upon the salesman some function which would not be assumed by his fellow at headquarters?

All this does not mean that a salesman should never be called upon to make collections. It merely argues that it should not be a part of his regular duties. When the time comes that the credit man decides that Mr. Smith of Wharfville must have no more credit until more satisfactory payments are made the salesman is invaluable. He can act as the personal representative of the head office and suggest immediate action to the debtor without awakening personal animosity against himself.

Suppose our salesman gets word that Mr. Smith must pay at least \$500 or no more orders will be accepted: How easy it is for him to step into Mr. Smith's store and say, "What have you been doing to our people, Mr. Smith? They have been writing to me

about you." This will lead to the necessary explanation at least—quite possibly, to payment or to some arrangement, without disturbing the present friendly relation of Mr. Smith and the house, through the salesman. The situation would be much more difficult were he to collect regularly.

One more argument and I will leave the subject. When salesmen are used as collectors they are usually the only means employed in the territory they cover. As they usually cover the ground no more frequently than once in 30 days the accounts are not given as frequent attention as they should have. Usually not so much attention as they could receive were the matter to be handled direct. Altogether there seems to be more reason against the practice than for it, although there are some special cases where the salesman is the logical collector and none of the reasons given seem to apply.

All this should teach something to the slow pay man himself. In the first place, discounting is an easy way to make money. Suppose we have a 90 day bill for \$100 subject to a 5 per cent discount in 10 days (not an uncommon discount). This means that the debtor can save \$5 by paying \$95 in ten days. The bill should be paid in 90 days any way and he thus loses the use of the \$95 for 80 days. Suppose he borrows the money for discounting at 6 per cent. His discount on this one bill would almost pay his interest on the \$95 for a whole year. This discounting is a profitable thing were it not for the undesirable fact that the customer gains more in the way of close prices than he does in the discounts themselves when he once gains a reputation as a prompt payer.

Many a local bank will be glad to loan a merchant money enough to discount his bills if he is solvent and fairly prosperous.

When diplomacy fails, when the letter writer fails and the whole process of the collection department has

produced nothing but promises or an enveloping silence, the credit man must then turn to the collector. He has the alternative of placing it with an attorney, or with a collection agency.

The attorney at first blush appears the logical candidate for the business. The commercial lawyer is an outgrowth of our commercial age. He is needed or he wouldn't be here. He varies greatly in ability, however, and as our representative the ability of our agent is our ability, so we must carefully consider him.

The lawyer as a class has a grievance against credit men as a class. We use him as "a scavenger for information and forget him when the pie is being handed around" is his complaint.

This needs no comment except that when we find a lawyer who treats an inquiry properly we are generally glad to give him a chance to handle a collection in the same way.

Delinquent collections generally begin at home.

The credit man is lax in the first inspection and a delinquent debtor gets on the list of accounts. We let him lapse a bit—"give him an inch and he takes an ell"—he is chronic on the second lapse.

Your methods of handling your statements of account vary so that a man gets his statements any time during the first ten days. You should appear right on the nail every month.

But you have delinquent accounts. You have tried all the ways you know to get the money.

The lawyer is in business to make money. He wants all the business he can get, but generally he is not prepared to care for all that can come to him. He serves his largest customers first and best.

No well conducted credit department can send any one lawyer sufficient business to make it worth his while to devote any considerable portion of his time to that particular credit department's business.

We experience, therefore, annoyance, delay and ex-

traordinary expense as a consequence of dealing with a mixed aggregation of lawyers, good, bad and indifferent—the last predominating.

System is the oil that prevents friction and hot boxes in the commercial machinery. The average lawyer has little organization and less system.

The ethics of his profession prevent him going out into the business world and bidding for business, except in a colorless and negative way. He has no way to get business except to wait for it; and no way to keep it except by deserving it. He can't afford to wait, however. He must take the best and quickest money. It is the growing conviction of concerns handling a multitude of accounts that a concentration of their bad accounts in the hands of one concern is for the best interests of the credit department.

On the force of this conviction the growth and success of the collection agency depends. The collection agency depends entirely on collections for its success. It can get and keep business only through its success in handling a large number of accounts for a large number of concerns, which gives it a volume sufficient to interest the more successful and expert lawyers in all parts of the country. The agency must collect the debts in order to live. The lawyer that represents the agency has much more than the fee in one case to lose if he fails to give your account adequate attention.

Therefore, it would seem that the responsible and business like collection agency should have the preference in the work of handling delinquent accounts.

There are, however, collection agencies and collection agencies.

Some of them are simply organized gangs of blackguards and licensed ruffians, any relation with which a reputable concern should blush to own.

The credit man cannot afford to be careless of the methods by which his collectors get the money he sends them after. He should not be willing that a collection

agency should use methods which he would not use himself.

The agency should be financially responsible; it should be prompt in making reports; it should be prompt in making settlements on adjusted claims.

I hear the economical credit man say, "Yes, but the collection agency charges a larger fee."

Truly, but it will get the money in a larger percentage of cases. That is worth something.

The lists of lawyers are constantly changing. You must keep after a proportionately increasing list of lawyers as your accounts increase, for it's often nothing but a swapping of follow-up from debtor to lawyer. Making banks do your collecting is a heart-breaking and thankless task. Banks are not collecting agents in the sense of delinquent or contested accounts. The banks' first interest is their home customers. They will not press a collection and their perfunctory presentation of a draft is a distinct drawback to the possibility of collection by peaceful means. As Mr. J. W. Butler of the Texas Bankers' Association said recently at their state convention:

"The constant dogging of our customers with these little accounts is anything but helpful to our business. We only receive those the house can not collect themselves, so that the disputed claims, the claims that ruffle our customer, or the "prod" to the slow payer that sends his check with no funds in bank, trusting to luck to be able to deposit ahead of the check, are the lot that fall to us.

"We have sacrificed a prestige we formerly had for collecting money. Time was when a debt matured at the bank or the bank presented a paper for payment, there was deep concern and hustling. Debtors were afraid of the bank. But we have piddled with every little old disputed claim until the debtors have lost that fear and find it easy to say "no" and we find ourselves much

chagrined in the end. And worst of all, we have sacrificed that prestige without reward of profit."

Which shows how the draft method is likely to fail at the hands of banks.

In conclusion: Your only object in carrying a past due balance is to hold the trade of the delinquent. When he ceases to buy or even when he transfers any considerable portion of his trade, it is time to collect. It will no longer do to carry the account. There are these two reasons for this. First, because it will not pay in the way of profits as compensation for the risk. Second, because the other party he is purchasing from may not be as lenient as you are. Should the other creditor swoop down upon him he might take such steps as to render your account worthless, or greatly reduce its value to say the least.

## CHAPTER XVI.

### The Slow Pay Customer.

**W**HEN we consider the slow pay customer we are considering a major part of the trade of most manufacturers and jobbers as well as the most profitable part of the trade. Some of these "slow" people are such because they can not pay; others because they will not; a few, because they simply do not.

No set rules can be formulated for handling this class of people for each one is in a "class by himself." Each must be considered individually. The man who cannot pay may be in that condition temporarily or the case may be a chronic one. Some men seem to get behind and never again catch up. One of two things must necessarily be true of every slow pay customer. Either you could get your money if you chose to enforce collection or you could not. If you determine that the money is not producible by enforced collection there is but one thing to do: Nurse the account. Coax the slow pay man along. Possibly assist him to get upon his feet again in order that you may eventually get your dues.

If you determine that the collection could be made at once should you decide to make it there are still many vexed points to be decided before a final decision, to wait or proceed, is reached. On the other hand we have legal proceedings accompanied by their inevitable expense added to which is the almost certain assurance of the loss of the debtor's trade. On the other hand the money



involved is lying idle and producing nothing in the business.

What the credit man must know is whether the slow pay customer will eventually pay up, or not. If we allow our credit man to accept orders only from customers in unquestioned standing, refusing those concerning which there was the slightest question there would not be the slightest difficulty in the world. The trouble is, we are just like thousands of others—we must have trade. To refuse to sell the "slow" customer would be to cut off one-half of our trade and more than one-half of our profits. The intention of the credit man is, then, to sell to all who will eventually pay and to refuse credit to all who will not.

A "slow" man usually causes the credit man the most anxious thought. He has been a good customer. He is so still. Perhaps he is a liberal buyer—he almost always pays the highest possible price for all he buys. His trade is valuable if—if he will eventually pay. This is for the credit man to decide. A decision to enforce collection may not mean any very great amount of actual cost in collecting an account, but it almost always does mean an immediate and total loss of the trade of the party proceeded against. One of the shrewdest credit men in the West has long made it a practice to loan his firm's money to debtors who were temporarily unable to meet their obligations. This enabled them to close up their outside accounts, confining their trade to the concern who granted the favor. Even though they were not mortgaged and so prevented from buying elsewhere they were usually held by a certain feeling of gratitude. All this was counted upon and in addition the debtor paid and paid well for the favors received, not only in the way of interest but also in the way of little overcharges here and there where they would not be noticed.

It will be asked: Cannot these men tell when they are overcharged? I answer: No. A man who is doing even a fairly decent business and who gets into the slow

pay class does so simply because he does not pay attention to such things as overcharges and discounts. When such a case as this is noted one will find that the business is one which would be a very profitable affair if run upon modern up-to-date principles and in a way which would take advantage of every chance for profit.

Careful consideration must always be given to the reason why a debtor is or has become slow pay. It is taken for granted in the beginning that we do not wish to sell a man who is not doing a business showing some profit. Why then, if some profit is shown, does he fail to pay promptly? Perhaps the slow one does not keep his personal expenses or his family expenses within the limits of his profit—which should be his net income. Perhaps he is too easy in his own credits. Possibly he is a poor collector and allows his customers to pay him when and how they will instead of as they should. Perhaps a worse leak exists—dishonesty on the part of an employe. Any or all of these things can be remedied when they are known. It is the credit man's business to find out.

Occasionally circumstances entirely beyond his foresight and control will put a usually prompt man into the slow class, much to his chagrin. A local calamity such as a fire—a flood—the shut down or failure of an important, local, wage-paying industry will be just cause for slowness through leaving on the merchant's shelves unsold, goods which would, in ordinary course, have been promptly turned into money. A backward season may at times produce the same effect.

When a debtor gives a poor reason for slowness in meeting payments he usually gives you a reason for distrusting him and examining into his condition with great care. The poor reason indicates poor judgment and a man with poor judgment is always to be mistrusted in spite of every guarantee as to honesty and integrity. Over-buying is usually a very poor reason for lack of promptness. Usually it shows that a merchant does not know his own trade. There is usually but one good

excuse for a very heavy purchase of goods by a merchant who has little ready money—that is, a very low price. If goods can be bought so cheaply that by means of a special sale they can be quickly turned into money there is some excuse for the purchase.

To analyze the situation accurately—to weigh each circumstance and place its proper value on each condition is the task which tests the credit man's acumen, he has here a chance to demonstrate his fitness—and also his unfitness. A few blunders on his part will succeed in diverting to other houses the trade he has turned down because of his failure to correctly "size up" the situation. Some more astute man will be on the lookout to pick up the misjudged debtor and make of him a permanent customer. On the other hand, a few misjudgments resulting in actual financial loss will do much to take away the credit man's reputation for clear-sightedness.

Get all facts possible regarding your customer. Facts about the man himself, his trade, his business character, his personal character, his personal habits, whether expensive or otherwise. Learn all there is to be known about his trade, its possibilities in the way of better or worse conditions in the future. Ascertain if possible how much is owed outside of your own account, especially in your own line of trade. Even with the fullest possible information to decide is difficult enough.

We sometimes run across a man who could unquestionably pay his indebtedness to you if he chose to do so. His excuses are "thin." It does not necessarily follow that such a man is intentionally dishonest—he may be indulging in sharp practice. He will bear watching.

The man who will not pay is sometimes using your money to pay other bills, perhaps because he gets better discounts on some other line which he desired to take advantage of or perhaps because someone else is pushing him a little harder than you are. It does not necessarily mean that the debtor has dishonest intentions in doing either of these things but he is the sort of man

from whom it is well to make prompt collections for he will take an unfair advantage of your lenience in a manner which causes you a double loss. You lose the use of your money and not only this—you lose some trade, for he will naturally cut down his purchases with you while he owes you a past due account.

Much can be deduced at times from the manner in which a man pays his bills. The man who never by any possible chance makes payments on his account in such a way that it can be balanced to a certain point, shows his carelessness very clearly and as a usual thing an examination of his books will show that he really does not know what he owes you or anyone else, nor does he know accurately what anyone owes him. Such a man may succeed in the long run, but it can scarcely be said to be his own fault for he will contribute little in the way of systematic effort to his own ultimate success. Such a man usually has an unkempt store with quantities of unsalable stock, which have been in his possession for a long time—some of it he has forgotten he had. The idea of clearing off his dead stock has never occurred to him simply because he is too unsystematic to know he has it. Such a man is sometimes well worth all the credit he is likely to ask, but in case he asks for an extension on his account it will be well to look him over with care.

Perhaps the most vexatious slow pay man of the lot is the man just previously described. "Good as gold," as the saying is, and perfectly able to pay when you get after him hard enough, but it is always necessary to "prod" him, to get a remittance out of him. It sometimes becomes a serious question as to whether the trade of such a one is worth the bother it costs. The man who does not pay is also hard to judge correctly because he will not ask you for more time, giving reasons as to why he should have it, but when you send him a statement he simply ignores it—pays no attention at all. If your collector calls with a strong demand he gets a check

for a part of what is due. There is no feeling of safety in respect to such an account, although it is sometimes one which has been on the books of the concern for many years. Sometimes a little diplomacy will get a statement out of a man of this sort and if it is possible to get such a statement it is well to get it. When it is once gotten it is usually necessary to deduct about 50 per cent from the stated value of his stock—not because he means to overstate it but because he simply does not know what he has. The same is usually true of what he owes and for the same reason people who are or have been, at some time or another, more or less slow constitute 75 per cent of the open accounts on the books of the ordinary merchant or manufacturer, and it must be admitted that the credit man who finds an infallible way of telling whether each slow pay customer is safe or unsafe deserves a crown.

How shall we protect ourselves against the knave? No matter how careful the investigation it is not always possible to detect the rascal until he has “thrown down” those who were unfortunate enough to consider him honest. We hear of “credit risks.” It is the rascal who will always keep the term in use until we reform human nature. Mere ability to pay counts for very little when a rascal starts out with the deliberate intention to “beat” his creditors—unless someone, more astute than he, fathoms his intention and heads him off with summary action. Here’s where the “moral risk” comes in. The writer has in mind a case of a man who showed abundant proof of his ability to pay all he contracted for when he applied for a very moderate line of credit. He had deeds of real estate in his own name to the amount of ten times the line of credit asked. In addition to this he had a clean bill of rate for his store showing cash payment. All in all he looked like a good risk, and a moderate line was granted him.

Payments were promptly made for some four or five months and business seemed fairly good with the

merchant in question. Suspicion was somewhat lulled. There still remained, however, the remembrance that some had called the man "tricky" and when inquiries as to his standing began to come in from various sources, the old suspicion was again awakened.

The frequency of these inquiries made it seem that all was not right and in obedience to the sense of "intuition" the account was closed. In the meantime the various inquiries kept coming in and no response except a favorable one was possible except the statement that the inquiries were suspiciously frequent. Within thirty days from the time the account was closed word was received that the store was closed, the stock having been removed "between two days." The real estate had ostensibly been sold and as a matter of fact had been transferred to another party. As it transpired, large quantities of goods had been purchased here and there whenever possible and not one of the sellers ever collected a penny. This is simply an illustration of the importance of giving heed to the moral qualities of a debtor and to keep in touch with the debtor's market, and is also a proof that it is comparatively easy for a man to acquire money or goods dishonestly in spite of all the care which may be exercised.

Our slow pay customers must be handled with great care and every effort made to keep the account in such shape that the trade can be held because it is quite usually a much more profitable trade than that of the prompt pay customer in the same amount. This is true for several reasons: Our "slow" customer always pays a little more for the goods he buys than a prompt man. He does not "shop around"—is not in a condition to do so usually. He usually sends his "voluntary" orders to the concern which carries him while the "discounter" gives his orders to salesmen as they call upon him. First one house and then another gets his trade—and at bottom prices. The unsolicited trade will almost always be more profitable than the salesman's trade, for the house will usually get better figures than the salesman. The salesman often finds

it necessary to "cut" prices to get an order. In doing this where it is necessary he gets into the habit of doing it where it is not necessary. Hence direct or "voluntary" orders are the more profitable.

## CHAPTER XVII

### Credit Statements in Law.

*This and the two chapters next following are devoted to a discussion of certain phases of the legal part of the credit man's work.*

*It is not intended that these necessarily superficial remarks should in any way be considered more than a suggestion of the importance of the legal side of the credit man's work. What is said is, more as a suggestion that there is law in plenty, rather than a specific guide to individual solutions. The subject of Bankruptcy we have left to the lawyers. It is a purely legal procedure and remedy. It is the last resort. We have conceived to be the better practice for the credit man to so conduct his department as to render such drastic measures largely unnecessary.*

*The credit man must, however, have his eye constantly on eventualities. He must know a good deal of law, especially if he has charge of a business covering many commonwealths.*

*For instance, in the instalment business, or in a business where sales are made conditionally, or under consignment contracts, the laws of the different states offer a wide variation of opportunity. In some states it requires that a certain proportion of the amount already paid must be repaid before the goods can be secured under an instalment contract, no matter what the terms of the contract. Firms doing business in these different states*



*must have special contract forms covering these conditions.*

*Consignment sales are difficult to handle in some states, especially where the community seems bitten with the idea that anyone but a farmer or a laborer is a capitalist to be bled.*

*These laws are modified and to be had in ready reference form through several reliable digests. A list of such books is given elsewhere and is heartily recommended to the credit man.*

*It is suggested that these books are to be used as a preventative of bad accounts. When you get a bad account and want a lawyer, do not imagine for one moment a lawbook is going to take his place.*

*We have not thought it advisable to cumber these pages with forms of legal contracts, assignments, consignment-sale forms, etc. Their name is legion and they are constantly changing, so that there can be no lasting benefit through their publication in a work of this sort. We prefer to leave such matter to the monthly digests and year books of the more prominent commercial and collection concerns.*

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**I**T is the design of this chapter to give something of an idea of the law in its application to the so-called credit statements, which for the purposes of this discussion we will assume to be a declaration by a business man showing his financial condition for the purpose of obtaining credit; with a brief consideration of the principles which govern ratings by commercial agencies.

The subject of this chapter is one of novelty in the law. The use of these statements is of comparatively modern origin. Something similar but less formal was in common use in early mercantile times, but was not nearly so complex or detailed as at the present time. We may with safety say the majority of decisions governing this branch of business have been rendered within the last fifty years. This novelty of application is not, how-

ever, an evidence of crudity or unfinishedness in the law in this field. The courts have merely applied the early principles to the new phase and without any jar or appearance of transposition have pretty well settled the rules which shall govern efforts to compel the support of credit statements or to obtain relief when these are shown to be fraudulent. In the main governmental control over these transactions is exercised by means of the application by the courts of fixed legal principles. In some of the states, however, statutes have been passed affixing certain penalties for the making of a false credit statement, as will be seen later. The liability, if we may properly call it such, for issuing a false statement of the condition of one's business is both civil and criminal. It might be criminal even at the common law, but in the most of our states the degree of criminality is fixed by statute.

Foundation of legal liability: A few fundamental principles govern legal liability. One is said to be liable to another because he has failed to perform some contract or agreement with that other or because he has neglected to perform some duty which the law imposes or because he has done something which the law commands that he shall not do. These three heads include all manner of cases in which the law imposes a liability to another. The means of enforcement of this liability are yet more simple, either because one has stipulated that he will perform a certain act, or because he has neglected to perform a certain act which the law commands him to perform, or because he has done something which the law commands him not to do. He is, generally speaking, simply liable for the damages occasioned by his act or failure to act. The means of ascertaining these damages are much more complex and are too intricate to be detailed here. Another means of enforcing the liability which, calling the recovery of damages positive, may be called a negative enforcement, is the so-called estoppel, the doctrine of which is that having affirmed something

to be a fact, or by his conduct led another to believe that such is the fact, and with knowledge of the truth whereby another is led to do something, or to omit to do something to his injury, the person who has caused the injury shall not thereafter be allowed to affirm or deny that which previously by his words or conduct he has denied or affirmed. More quaintly put in the language of one of the early law writers, Lord Coke, an estoppel is that which stoppeth or closeth a man's mouth to speak the truth when he has formerly affirmed that which was false for his own purpose. The application of these brief, and we may say absolutely basic legal principles, to the subject in hand will be of more difficult statement, but a careful analysis of each situation will readily show that the remedy will either be found under one of these heads or under that which we are about to state. It sometimes happens that the law permits a third remedy for the violation of an obligation, and that is the right to retake the property which one by the other's wrong has been led to part with. That is, one having sold goods upon the faith of another's false credit statement, will, while they are yet in transit to the purchaser be allowed to stop them and retake them from the carrier. The principles which govern this as well as those which govern the other remedies will be elucidated in the body of this article. We have then as we had three foundations of legal liability; three remedies for its enforcement. Unfortunately none of these are co-terminus. That is, we cannot say that the remedy in damages, or the estoppel, or the right to stop the goods in transit, applies to the one or the other of the three grounds of legal liability more than to any of the others. It may perhaps in the main be said that the remedy to recover damages is practically the only one applicable to the breach of a contract, but it is not also true that this is the only situation in which damages may be recovered, for they may be recovered for the other wrongs. Thus we have three remedies to discuss for the purpose of this chapter. First, the remedy by recovery of damages; second, the remedy by estoppel; and

third, the remedy by stoppage in transit as it is technically called, or by recaption. We will probably have but little occasion to consider the doctrine of contract with reference to credit statements, for while it may be contended with a good deal of force that one who makes a statement concerning his financial condition impliedly at least agrees that that is the truth. Yet his liability, if it is false, has not been referred to that particular basis of legal liability but rather to the other two heads of which we have spoken, and its falsity has been considered an evidence of fraud and not an evidence of breach of contract. While we are on the point it might not perhaps be amiss to say that one in making a credit statement does not impliedly agree that it shall continue to be true, but has fulfilled his entire obligation if the condition shown by his statement is the true one at the time it is made.

The recovery of damages as a particular remedy for the correction of a wrong practice by the issuance of a false credit statement demands but very little consideration, for it may be disposed of with the statement of one general rule, viz., that damages may be recovered for the issuance of a false credit statement when another is injured thereby, but the remedy as will be readily seen is of no practical importance, for if the credit statement was false and the man is unable to pay the price of the goods, or to meet the obligation, that is, if he is financially irresponsible, a judgment for damages would be of very little importance, since it would be no more easily collected than would the price of the goods. Therefore, we will in the main confine ourselves so far as this branch of our discussion is concerned to the consideration of the right to retake the goods, and to the consideration of the effect of the so-called doctrine of estoppel as a remedy for a false credit statement.

The statements which we are considering may either be made directly to the vendor by the one seeking the credit or they may have been made through the medium of a commercial agency. In either case the vendor is

entitled to rely upon them, and the seller of goods may rely upon statements which had been made by the purchaser to a mercantile agency, some time previous to the sale, as to his financial condition. The fact that such representations were made through a mercantile agency does not affect the case, for the law holds that they must have been made with the purpose of inducing credit, therefore are as binding upon the one making them as though they had been directly communicated to the person from whom he is seeking credit. The same rules prevail where the report is the one required by statute to be filed by a corporation with the Secretary of State and in the office of County Clerk, and is used by commercial agencies as the basis of a rating. Under such circumstances the law requires that such report shall be fair and honest, and the one extending credit upon the faith of it is entitled to rely upon its verity with as much dependence as though it had been made directly to him.

Silberman vs. Munroe, 104 Mich., 352.

No difference is found in these rules even though the report was made quite a long time before the credit was advanced. Thus where a statement was made to a commercial agency in July of 1891 and goods were sold on the faith of it in June of 1892, it was held that the statement was binding upon the vendee, and that the one extending credit was entitled to rely upon it, the rule being declared to be that one is entitled to rely upon a fair report through a mercantile agency when there is nothing in the report or in the surrounding circumstances to excite any suspicion as to its accuracy, the court saying that the vendee had been in business a long time, had dealt with the vendor before, and had previously met his bills promptly and was generally supposed to be prospering, as the report so represented him. The confidence inspired in the minds of the sellers by an examination of such reports being consistent with the reputation and previous history of the purchaser was lengthy and reasonable. The court further said that if such reports were

true, or substantially so when they were made, subsequent sales could not be avoided upon a change in condition subsequent to such report when made entirely upon the faith of the report, because it would not be the vendee's duty to communicate such change unless requested. Where, however, the report is not true when it was made or when it is referred to at a subsequent date after a change in financial condition as a basis for extending credit the vendee is not at liberty to insist that there has been a change in his financial condition, for by the latter action he adopts the report and by the former action he is guilty of a previous fraud.

It is also true that such reports need not be made immediately by the party who desires the credit, but if they are made by his agent having charge of his books as his book-keeper, and even though they are made without his knowledge or direction, he is held to be bound by them, the courts holding that the authority which a book-keeper has involves the making of such statements and they are therefore legally his acts and he may not be heard to say that he was ignorant of them, for he is bound to know what his agents have done in the exercise of authority given them by himself.

Schram vs. Strouse, (Tex. Civ. App.), 28 S. W., 262.

It will not do for the one who makes such statements, or in whose behalf they are made, to say that he was ignorant of the truth, for it is his duty when he has the means of testing their accuracy to know whether or not they are true. Thus where it was shown that the person who made the representations was an active partner in the purchasing firm and that by use of means within his reach he could and ought to have known that the statements were not substantially true, he was held to the same accountability as though he had known them to be true, the court saying that he ought not to be heard to say that he did not know what his firm owned and owed. "He must be held to have made a statement as to the assets and liabilities of his firm known by him to be

untrue, or to have made the statement recklessly without making that inquiry which good faith required that he should make before making a statement intended to influence, and which he knew would influence the sellers."

Morrison vs. Adoue, 76 Tex., 255.

A leading case in this field upon the contention that one should not be held bound by reason of false financial statements to commercial agencies has said, "The counsel for the appellant is undoubtedly right in his general proposition that a false representation made to one person cannot give a right of action to another to whom, and who acts in reliance upon its truth. If A casually or from vanity makes a false or exaggerated statement of his pecuniary means to B or even if he does so with intent to deceive and defraud B and B communicates the statement to C, who acts upon it, A cannot be held as for a false representation to C. But if A makes the statement to B for the purpose of it being communicated to C or intending that it shall reach and influence him, he can be so held. Neither is it necessary that there should be an intent to defraud any particular person. Should A make a false statement of his affairs to B and then publicly hold out B as his reference, can it be doubted that he would be bound by the communication of his statement by B to any person who might inquire of him in consequence of this reference? That case differs from the present one only in the fact that here there was no express invitation to the public to call upon Dun, Barlow & Co. for information. But the defendant knew that they were a mercantile agency whose business it was to give information as to the standing and means of dealers, and that it was resorted to by merchants to obtain such information. By making a statement of the financial condition of his firm to such an agency he virtually instructed it what to say if inquired of. Can it make any difference whether he spontaneously went to the agency to furnish the information or whether he gave it on their application? He must have known that the object of the

inquiry was not to satisfy mere curiosity, but to enable the agency to give information upon which persons applying for it might act, in dealing with the defendant's firm.

The making of the representations, their falsity, and the defendant's knowledge of their falsity, and that the plaintiff relied upon them, were sufficiently proved, *prima facie*, if the plaintiff's witnesses were credited. It is also clear that the defendant, when making the statements, knew that they were to be used by a mercantile agency, and the testimony of Riggins, if credited, tends to show that the defendant understood the effect of the representations, and desired to have a high rating, and also tends to establish a fraudulent intent. The jury might legitimately draw the inference that the alleged false statement of the capital of the concern was made for the purpose of giving it a credit to which it was not entitled, and of defrauding any person who might inquire of the agency, or consult its lists. That he knew that these agencies issued such lists to merchants who paid for them, appears from his own testimony, and his denial of knowledge, of the purposes for which they were issued and consulted, was not conclusive. The jury was entitled to draw its own inferences on that subject from the circumstances, notwithstanding this denial."

Eaton, etc., Co. vs. Avery, 83 N. Y. Rep., 31.

Another phase of this question is presented when some data is given by the purchaser to a commercial agency, and the representative of that agency from other sources, or from his own imagination, adds to such data and constructs his own report. In such cases the statement is not that of the purchaser, but is the statement of the commercial agency, and we are here met by the well established rule of law, that one to set up fraudulent representations inducing his action must have been induced to act by such fraud. That is, one is not responsible although he has made a false statement to procure credit if the one who extended the credit did not rely upon the false statement but went to other persons and



relied upon their statements, or investigated for himself in other ways and depended upon such investigation. It is fundamental that to avail one's self of fraudulent representations as a possibility for avoiding a contract or for bringing an action for deceit the plaintiff must have relied entirely upon such representations and had been guided in his conduct by them exclusively, and it is a complete defense on the part of the one who made the statement if he is able to show that the person who extended the credit relied even in part upon statements made by others or upon individual investigation.

From these principles it will not surprise us therefore to find that where, as in a Nebraska case, upon an order for goods being given by one Berkson the vendor requested a mercantile agency to secure a statement of his financial ability, upon which the representative of the agency went to Berkson and secured a report after which he made the following statement: "Think his stock would invoice fully \$12,000; insured for \$10,000 and says \$1,200 would pay his entire indebtedness; is doing a fair business, which is managed economically and with some profit; has been here a good many years and no complaints are heard of him in any way. His stock is largely of cheaper variety and would suffer heavy shrinkage on forced sale. Is generally conceded a net worth of four to five thousand dollars. This estimate allowing liberally for shrinkage and stock prospects thought fair." The court held simply what the report itself discloses: "that there was no pretence therein that Berkson had made the statement embodied except that he estimated that \$1,200 would pay his entire indebtedness. The reliance therefore of the company which sold the goods was entirely upon the statements of the report, and not especially upon the portion containing what purported to be the statement of Mr. Berkson himself, and recovery may therefore not be had."

Poska vs. Stearns (Nebr.), 42 L. R. A., 427.

A similar case is found in Illinois. Where a false

statement was made to the commercial agency but where the agency submitted a materially different report to the credit man on the vendor and upon the faith of which the goods were shipped, it was held upon this that the vendor was not defrauded by the vendee, but inasmuch as he relied upon the statement of the mercantile agency he could not recover.

Wachsmuth vs. Martini, 154 Ill., 515.

Another dangerous spot in these commercial agency reports arises from the application of a principal of the law of fraud equally as fundamental as any of those which we have previously referred to, viz., that the representation in order to found a right of action must be of a material fact and not matter of opinion, conclusion of law, or expressions in the nature of promises. For example, the mere statement of an opinion as to solvency or as to value of property when it is not wilfully false will not give a right of action to retake the goods sold upon the faith of such representation.

Jaffrey vs. Moss, 41 La. Ann., 548.

To recapitulate: It may be said as a general rule that a false statement of fact regarding the financial condition of a person or firm made to a commercial agency or directly to an individual from whom credit is sought gives that person the right to rely upon such statement, and if he does rely upon it and it turns out to be false founds a right of action. If, however, it is merely a matter of opinion, or if the person extending credit does not rely exclusively upon what was said by the debtor no remedy will be given because of the false statements.

The remedy: Having discussed the right we now turn to the remedy. Recalling what was said in the opening paragraphs we will remember that an action for damages will lie for a deceit by false representations; also that such representations will give the right to stop the goods while in transit or to retake them from the purchaser if the fraud was of such a nature as will authorize rescission of the sale. The right to stop the

goods in transit is very clearly distinguishable from the right of rescission, and while it is in nature a rescission, it is given for broader grounds than is the right to rescind. Generally speaking, before the goods have passed to the purchaser and while they are yet in the hands of the carrier, unless there has been an assignment of the bill of lading to a bona fide purchaser, the vendor may stop the goods and order them returned to him for the subsequent insolvency or change in condition of the vendee. Further, if the sale was induced by a false statement of the financial condition of the vendee, the vendor may even after the goods have been delivered to the vendee disaffirm the sale for the fraud and retake them from the vendee.

*Bugg vs. Wertheimer & Co.*, 45 Cent. L. Jour., 97.

This is not the law, however, if the goods have passed to a bona fide purchaser, for under such circumstances the law holding that the title passed to the vendee by the sale induced by fraud he may transmit such title to one who is innocent of any wrong doing. That is, the title passes by a sale induced by fraud defeasible of course and subject to avoidance for the fraud, but also capable of affirmation by the vendor, and if he does not disaffirm it before the title which still remains in the vendee until such disaffirmance has been passed to one who was ignorant of the fraud and who had parted with value, the right to retake the goods is gone. Further, the false representations in a credit statement may operate by virtue of the doctrine of estoppel, and thus in a negative way give the vendor a remedy. For example, one who represents himself as the owner of a business concern known as the New York Pie Co. to a commercial agency, upon the faith of which credit is extended may not deny the truth of such representation, and must respond to those who have traded upon the faith of the ownership even though he were not the one.

*Stevens vs. Ludlum*, 46 Minn., 160, 13 L. R. A., 270.

It is also quite possible, although on this there does

not yet appear to have been any decisions, that when a representation of financial condition is made in gross as of net worth above exemptions that the one who made the representation would be estopped from claiming that which the law allows him as exempt from execution, upon the basis that having represented himself as of certain financial worth above exemptions he may not deny that that is true.

In some of the states, as has previously been said, statutes have been passed making publication of a false credit statement a criminal offense. Thus in Georgia there is such a statute, and one was prosecuted for making a false commercial statement under it, but inasmuch as sixty days had elapsed since the making of the statement to a commercial agency, and inasmuch as the accused did not at the time of obtaining the credit specifically point out this report as the basis for such credit it was held that his fraudulent intent upon the particular person who extended the credit was not shown, and for that reason the prosecution failed. It serves, however, to show that under this statute, which is similar in most respects to those in other states an intent to defraud is essential, and this must in general be shown by the fact that the false statement was made to the particular person or adopted by the debtor upon his particular behalf.

Treadwell vs. State, 27 S. -E. Rep. 784 (Ga.).

Liability of the commercial agency for a false credit statement: It has sometimes been attempted to hold commercial agencies responsible when dependence has been put upon a credit statement issued by them, the false portions of which they were responsible for. Commercial agencies are not liable for inaccuracies in their reports when by contract they expressly stipulate that they do not in any manner guarantee the actual verity or correctness of the report, and when such reports are made by special agents, for whom they declare they shall not be responsible, a loss occasioned to the subscriber by the wilful and fraudulent act of such special

agent may not be imposed upon the agency, but may, of course, be recovered from the special agent.

Dunn vs. City National Bank, 58 Fed. Rep. 174.

Liability of commercial agencies for libel in credit statements: A discussion of this subject of credit statements would not be complete without considering the liability of the commercial agency to the one of whom the statement is made for any libelous matter contained therein. There have been several cases along this line, and in the main the rules are fairly well established. It has been seen that commercial agencies make a practice of making their reports both from the statements made by the subject of such report and from the observation of their own agents. This, as we have pointed out, is a dangerous practice, for if the statement made by the mercantile agency and not that one made by the purchaser is relied upon, the purchaser is not responsible.

It is also dangerous for the agency, for if false under certain circumstances he will be liable for libel to the one of whom this statement is made. Thus, where the publication of a rating was by a blank opposite the name of the firm rated it was held proper to introduce evidence by those who understood ratings as to what was meant by the blank, and if such rating was untrue it founded a right of action.

No little dispute has been occasioned among the authorities by the question as to whether or not the report of a commercial agency to its subscriber is privileged. That is as to whether or not a right of action lies for its falsity unless it was malicious, the weight of authority seems to be that it is privileged, and that unless shown to be malicious it does not found a right of action. Many well considered cases, however, support the contrary view and it cannot be said with entire positiveness just what the law is. Those states which have the view that it is privileged have said, however, that the publication of a false report when shown to be without careful consideration of the facts was malicious because of the recklessness in such publication.

The safest way for all concerned is for the agency simply to publish what it obtained from the subject of the report without comment or amendment, and it cannot therefore be liable for libel on the one hand, or for the conveying of false information on the other, nor will the person about whom the information is given be able to dodge its effect by saying that the person who extended the credit did not rely exclusively upon what was contained in his statement.

## CHAPTER XVIII

### Contracts—Oral, Written, Expressed and Implied.

**N**UMEROUS books have been written on this subject, but an attempt will not be made here to give more than a brief suggestion upon some few points which are dangerous in the application of the general law upon the subject of contracts. We say dangerous, because this must necessarily be the case as regards the average credit man who is acting as he ordinarily does without the immediate advice of counsel. These points are also dangerous to counsel, who, although learned in the general common law as we call it, must necessarily consult the statutes for special points applicable in particular jurisdictions. There have been many books written on the subject of contracts, many as extensive as three or four volumes of a thousand pages each. These are, of course, written for the use of the professional man, but very much useful information can be gained from them by laymen of intelligence and education. It is the writer's private opinion that schools, giving technical training, or those in which merely a liberal arts course is taught, should give some attention to the study of the fundamental principles of the law, but even without this knowledge, it is possible for a great deal of valuable information to be gained by a careful reading of general works on legal subjects, as for example, Parsons on the Law of Contracts, which is generally conceded to be standard. Complicating the situation, however, instead of simplifying it as was evidently the intention, is the fact

that in many of the states, the legislature has codified the entire law controlling contracts, and one who would be guided in those states, must carefully read the statutes. The whole law of contracts is thus codified in North Dakota, South Dakota, Georgia, Louisiana and Montana. In the main these codifications have followed the general principles of the common law, so there is nothing strictly novel in these statutes.

A contract may roughly be defined to be a promise or agreement between parties who are recognized by the law as being capable of entering into agreements, for a consideration, to perform a certain act or abstain from doing a certain thing. All the parts of this definition are essential to every contract. No contract can exist unless in some form or another, each one of these separate elements are found contained in the proved arrangement of the parties.

First, then, the contract must be between parties capable of contracting. These may not be minors, incompetents or persons under other restraint or guardianship; or married women also called feme covert, except in so far as the statutes in some of the states have removed the restrictions which are placed upon the rights of married women to enter into contracts under the common law. And right here perhaps it would be well to pause and give a general notion of the distinction existing between certain classes of law.

The first system of jurisprudence of which we have definite knowledge is that of the Romans, beginning in a rude way in what was called the Law of the Twelve Tables, and gradually developing until a later date, when it was crystalized by the Emperor Justinian into his Code and Pandects. We speak of this Roman law because, although it is not the most ancient, and although it was preceded by many systems in Asia Minor and Northern Africa, which contained much matter of great merit, notably the codes of Chaldea and Egypt and the legal system of the Jews; the Roman law was not to any appreciable degree dependent upon the mere ancient jurisprudence.



ence. We also call attention to this Roman system, because all of the modern law is directly traceable to it, especially is this true of the law of contracts which we have here under consideration. It, in common with many other branches of jurisprudence, is very clearly derived from the digest and code of the Emperor Justinian, and there is no system of law generally prevalent in the world today, either in Europe or America, which is not clearly an offspring of Roman institutions. It may be said with added force that the system of law generally in vogue on the continent of Europe bears a stronger resemblance to the Ceserean parent than does the Anglo-Saxon code. The Roman jurisprudence is also unique because of its unparalleled example in the development of a system of law as has been said of the Federal constitution, struck off almost at one operation, without any evident model.

More nearly related to our own times and bearing an intimate relation to the Roman code is a system of jurisprudence denominated as the English Common Law. This consists in the first instance of a body of custom and usage developed in the British Isles and particularly in England between the times of the Roman evacuation and the Norman conquest. Crystalized between the tenth and fourteenth centuries A. D. by judicial decision and law treaties, and improved and expanded by liberal contributions from the Roman law. Grafted upon this system by later generations, is the vast body of statute law consisting of the enactments of the various legislatures of the various commonwealths in countries throughout the English speaking world.

On the continent of Europe then we have two sources of law. First, the Roman system. Second, the decrees and enactments of executive and legislative government. In the Anglo-Saxon world we have three sources for all law. First, the statutes consisting of acts of parliament and of the legislatures of the several states and countries. Second, the judgments of the various courts of last resort embodied in what are called opinions written out by the judges consisting of deductions from previous

decisions and statutes, and the common law arrived at by logical reasoning from these, and from the application of general principles of right and justice. Third, the common law embodied in various treatises previous and up to the time of Blackstone, the seventeenth and eighteenth centuries already referred to more at length.

To return at this point to the subject of parties to contracts from which we digressed for the purpose of explaining and classifying that which is recognized as law, we find that persons or parties are either natural or artificial, and as it has already been shown, only natural persons may make contracts, who are of sound mind, of full age, and if females, free from the restraint of marriage, unless in states where the rights of married women have been enlarged. It should further be said as to these persons, that generally speaking, aliens may contract, and their contracts will be enforced by the courts of their domicile, except in the courts of an alien enemy. It is also true that contracts of those who are not of sound mind, or who are minors or married women, may be validated by such persons after the disability is removed, and if acquiesced in, or not avoided by them upon the arrival at majority, or upon the removal of the disability, they will be bound by their agreements exactly as though they had been originally entered into by a person of usual capacity. It should further be said in regard to married women that in very few of the states have their disabilities been entirely removed. Generally speaking they are only permitted to enter into contracts when those are for the benefit of their separate estate, and ordinarily they may not enter into contracts which are not for their benefit. Thus in many jurisdictions a married woman is practically precluded from becoming a surety. The deduction being that the contract of suretyship does not concern or benefit her separate estate. There are, of course, some exceptions to this rule, but it will be found upon extended examination to be one of very general application. Again, an infant or person under age, may make a contract which is voidable before or at his arrival

at majority, but which if adhered to after majority is reached binds him exactly as though he had been of full age when the agreement was made. The law also requires that if he still has on hand at the voidance of the contract its proceeds or result, as when goods have been sold to him and he still has them at the time he seeks to escape the obligation by setting up his majority, he must restore that which he has received.

*Persons may be artificial*, as corporations, public and private, or partnerships. These have no power to contract or enter into any obligations without the express scope in the statute or charter under which they exist, or the evident purpose for which they are organized, and their contracts entered into concerning objects which are not germane to the purpose of their existence, or which a power to execute cannot be implied from their organic act, are void, as it is said, *ultra vires*.

For example, the purchase of a stock of goods by a firm of lawyers in the partnership name would not bind the partnership without express authority from the other persons, for the reason that such a purchase would be without the scope of the partnership. So, also, the purchase of land by street railroad companies when the power to hold land has not been conferred upon the corporation, is void, and the company is not permitted to hold its purchase. Still, further, it has been decided that it is unlawful for cities to enter into various business ventures like the purchase and sale of coal or supplies. From these examples it is believed that the intent of the phrase, scope of the organization, as applied to organizations public and private, will be appreciated.

The second element in our definition concerns what is generally known as consideration. This may be generally defined as an act or promise to perform or forbear the performance of an act, or it may consist in a disadvantage resulting to one of the parties through the profit of the other party.

This element of consideration must be present in every contract in some form or other, and the law abso-

lutely refuses to enforce any agreement which does not bear unequivocal evidence of consideration.

Again, our definition requires that the contract be concerning a certain object. As we have said, for the performance, or the non-performance of a certain act or acts, the contract may, however, be executed or executory. When it is executed as in the case of ~~a deed~~, the act is performed at the time, and the contract is evidence of its performance. When, as in the case of a lease, however, it is not performed until a subsequent time, it is treated as executory.

Not only then must a contract have an object, but it must also be concerning something or for the doing of something which the law recognizes as legal. A contract to commit crime is void, and a contract to restrain trade or freedom of traffic in general, is invalid. A contract of wager is void. A contract to foster a monopoly or trust may not be enforced. All this is true, because as it is said, the object of the contract is illegal, is contrary to the policy of the law, and the law will not enforce anything which is against its spirit and intent.

Originally at the common law it was not necessary that any contracts be written. This was due to the fact that writings were to a large extent unknown to most of the British people, owing to their lack of education. Oral contracts were also good at the Roman law, but in some cases writings were required, and in practically all cases witnesses were essential. In English speaking countries writings are only necessary where express statutory requirements have imposed the rule.

The most general provision requiring written contracts is what is technically known as the statute of frauds. This act was passed for the prevention of frauds and perjuries, and the English model has in the main been followed in all the states. It requires that all contracts for the sale of goods, wares or merchandise of more than \$50.00 value, shall be in writing, or that there shall be a delivery or something given as earnest to bind the bargain. It renders a writing essential in cases of contracts

which are not to be performed within a year; agreements made in consideration of marriage, contracts to answer for the debt or malfeasance of another, and in all transactions concerning real estate. The statute never goes so far as to provide for the requisites of the writing, but contents itself with requiring that a writing be given. In the main the decisions have required that the writing embody the elements of a contract. The more peculiar instances requiring written contracts will be discussed later.

In regard to expressed and implied contracts, the definition is in brief this: An expressed contract is one which finds expression in the spoken or written words of the parties. An implied contract is one which arises by operation of law from the circumstances. That is to say, the law finding no other explanation for the relations found to exist between two parties, implies that a contractual relation exists between them, and from the circumstances supplies the essentials of the contract. Implied contracts arise in a multitude of instances which there is not space here to enumerate. For example, as between strangers there is always a contract implied to pay for services or goods and the like. Whereas, between those in the family relation, the law never implies a contract to make payment for goods or services when they are of a nature such as are ordinarily furnished gratuitously between those in the relation found to exist.

The whole subject of contracts has been codified in several states so that the statute in those states is the one source of the law upon the subject of contracts in the particular jurisdiction. This is also true in all of the countries of the continent of Europe where the influence of the Roman law is felt. Let us now discuss the legal necessities which attended the making of certain particular forms of contract. These will be discussed, first, under the head of "General Rules of Construction." Second, "The necessity and essentials of writings in particular countries and states." Third, the necessities for particular formal requisites, such as witnesses, acknowledgments and the like. Fourth, the necessities for and

effect of a record of particular writings. Fifth, the effect of the form of the writing upon the period within which suit must be brought upon the contract.

A whole volume might be written upon the subject of construction of contracts, but pursuant to our general purpose, we will lay down only some general principles. Contracts will never be construed with the aid of any proof outside of that contained in the instrument itself, unless there is what is called an evident ambiguity. When a contract is written and is entire, nothing having been evidently omitted, by the use of this word evident, we mean to denote, apparent upon the face of the contract itself, no extrinsic evidence will be admitted by the courts to assist them at arriving at the understanding of the parties. Parties must be bound by what they write. An oral agreement, therefore, made at the time of the written contract, or previous to it, is without force.

The foremost rule of construction requires that all parts of an agreement shall be given effect. Where there are contradictions, however, as between written and printed clauses as in a form, the written part prevails over that which is printed. Hence, when a clause written in a contract, contradicts the printed form, the courts will give it effect and disregard the printed phrase to which it is repugnant. Words printed in a contract in an out of the way place, or in obscure type, will very frequently be disregarded, the court calculating that they were not a part of the agreement of the parties, and that their injection into the writing was fraudulent. Generally speaking, also, the law of the place at which the contract is performed, or is to be performed, governs its construction, except that in case the parties have expressly contracted with reference to the law of a particular place, that law will govern, and except that in the case of real property where the law of its location governs. Persons, therefore, should look to the law of the place where the contract is to be performed, or the law of the place where the property is situated in order to learn what rules will be applied to its construction or enforcement. Contracts

are also never made to apply to past transactions unless that is their evident intention. They will ordinarily apply to the future only and not to the past. The law will not countenance any attempt to evade it, will declare any contract void, and will refuse to enforce it if an evasion is apparent. These words apply with special force to efforts to evade the usury law, and in these cases the place where the sum of money is to be paid determines what constitutes usury.

Taking up here the second branch of our discussion, viz., the necessity of writings in particular countries and states, we will discuss only the general forms of contracts, remembering that under the statute of frauds to which we have already referred, all contracts of certain classes must be written. In addition to this, writings are required in the case of bills and notes, chattel mortgages, deeds, mortgages of lands, conditional sales, and trust deeds. These writings are not required by any positive statute except in particular instances, but are demanded by the general provisions of the statutes of frauds, or are required by provisions regarding the registry of such contracts. For example, chattel mortgages and conditional sales are almost invariably required to be registered, and in order that there shall be a record of them, it is of course, necessary that they be written. This, however, is not true in New York, or New Hampshire, for in those states a mere notice or memorandum of the contents of the contract of conditional sales is all that need be required. When a writing is required to be recorded by any statute it must embody the whole contract, or it must embody all of the essentials specified by our definition. Should the writing fail to contain these essentials, it will be insufficient. In Nevada, the statute provides that contracts made by telegraph shall be deemed to be contracts in writing. In Nebraska real estate brokerage contracts must be written, that is, contracts giving real estate brokers the privilege of selling, must be in writing, and subscribed by the owner of the land, and must describe it. In many of the states, a bill of sale also when intended

to operate as a mortgage, must be in writing, and must be recorded. In many of the states, notably in Maryland and in Michigan, statutory forms are provided for these and other contracts, but generally speaking, these statutory forms are not binding upon the parties, and they may contract in any form that they may see fit. In Kansas all written contracts are presumed to have a consideration, and, therefore, in that state it would not be necessary to provide for the consideration in the written contract by anything more than a general statement of a valuable consideration. In Indiana a sale of standing timber must be written, and in Florida a contract requiring an employe to work more than 10 hours per day must be written.

It thus becomes evident from these illustrations how necessary it is that the person who has to enter into a contract of sale or the like, should know the law of the state in which he is to do business before he undertakes to do it. Of course, in a sale of goods to be shipped into another state, the law which would ordinarily be applied, would be the law of the state from which the goods would be shipped, but on the other hand, if payment was not to be made until the goods were received, the courts would undoubtedly hold that inasmuch as the contract was not to be performed until the goods had reached the state of their destination, that the statutes of that state should control the contract, and if it were not valid by the laws of that state, grave difficulties might be experienced in enforcing it.

Other peculiarities exist in many of the states, for example, in Mississippi cotton may not be sold in the night, and in Illinois all contracts relating to the sale of goods, wares and merchandise must be made according to the standard weights and measures provided for that state.

Moreover, it is essential in many of the states that particular forms of contracts be witnessed or acknowledged. This, however, although it applies to mortgages, deeds, bills of sale and conditional sales, does not in the main require these formal requisites to the validity of



the contract, but only require such things in order that the contract shall be recorded. Generally, also, the record is not essential to the validity of the contract as between the parties, but is only necessary in order that a third person may not purchase in ignorance of the previous sale or transaction concerning the property. These statutes, therefore, requiring an acknowledgment, and record applying generally to bills of sale, chattel mortgages, deeds, mortgages of real property, and conditional sales, provide that such instruments if not witnessed and acknowledged as required by the statute and recorded, shall be void as against subsequent purchasers of the property covered by the instrument without notice of their existence and the doctrines herein affected are among those which are most interesting in the whole realm of the law. One example is sufficient. We will suppose that a contract of a conditional sale be given upon the purchase of a piano in a state in which it is essential that a contract reserving title until the payment for the goods shall be written, signed by the vendee, witnessed and acknowledged before a notary public and thereafter recorded, and that the contract be acknowledged before the business partner of the vendee. Ordinarily he would be considered as disqualified from taking such acknowledgment, but the parties being ignorant that this is the law go on in good faith and record the contract. The other partner sells the piano to one who knows nothing of the conditional sale. Such purchaser would, under the law hold, for the reason that the conditional sale having been acknowledged before a person who was not qualified to take the acknowledgment at the time and the record of it would not be effective as against him. On the other hand, if before he purchased he should have gone to the register's office and discovered the record, together with the defective acknowledgment, the vendor who reserved title would be able to take the goods from him, the reason being he had actual notice of the conditional sale.

The form of the contract is also of importance in

determining in what time action must be brought to enforce rights, always remembering also that the statute of limitations, as it is called, which prevents suit upon contracts after a certain time has elapsed, begins to run against the contract only from the time at which it should have been performed. That is, one may not be debarred from commencing suit at the expiration of the statutory period until he is able under the contract to commence suit, and therefore the statute does not commence to run until suit can be brought, and suit cannot be brought until the contract is due to be performed. So a simple contract as it is called, either a written or unwritten, which does not bear a seal or a scroll in the place of a seal, is ordinarily given a shorter time of limitation; that is, the provision ordinarily requires that suit be brought within a period shorter than that provided for contracts which are under seal. In one or two of the states, however, this provision relating to sealing contracts, is extended to all written contracts, and any contract in writing is accorded a longer period of limitation than that accorded to oral contracts.

In conclusion, we desire to call attention to some particular classes of contracts which are in the most common use, and in which the gravest dangers exist of transgressing the law and thereby rendering the contractual effort ineffectual.

In regard to the matter of bills of exchange and promissory notes, several years ago the American Bar Association appointed a committee composed of some of the most eminent lawyers of the country, to draft a law to govern the subject of bills of exchange and promissory notes for universal adoption throughout the United States. The committee thus appointed drafted an admirable bill which was adopted by the Bar Association, and has since been enacted by the legislatures in many of the states. This bill, we believe, is in force in Arizona, Connecticut, Florida, Massachusetts, New York, N. Dakota, Pennsylvania, Utah and in the District

of Columbia, and will undoubtedly be adopted in many other states. When it is so adopted, the whole subject of negotiable instruments will be very much simplified. As it exists now the general commercial law borrowed from Holland, nurtured in England, and finally brought to this country, is in the main recognized. Upon this general commercial law many of the states have grafted novel provisions, but only a few of these can be pointed out. In Arkansas, patent right notes are open to all of the defenses to which they are open between the immediate parties, although in the hands of holders in good faith who purchased before maturity. In other states notes for patent rights or for lightning rods, or for seed grain must specify that they are for those purposes or they will be absolutely void. Ordinarily, a protest of commercial paper is required if it is not paid by the maker at maturity. A notice of this to indorsers is essential in order that they be bound. In Tennessee, however, and in some of the other states general epidemics or unhealthful or unsanitary conditions and quarantines by boards of health, render such notice unnecessary.

Chattel mortgages are also subject to many peculiar provisions. They must in general be recorded. In some of the states, partial payments must be registered on the margin of the record at the request of the mortgagor. In Arizona the statute states the requisites of the mortgage, requiring it to contain certain statements. They are also subject to peculiar provisions in California, and are only allowed on certain pieces of property unless possession is taken.

In Connecticut the statutes specify what articles may be chattel mortgaged, and chattel mortgages of other property are invalid. In Colorado, however, a mortgage of live stock covers the increase of such live stock, but in Nebraska a chattel mortgage is absolutely void when upon its face it shows that the mortgagor may retain possession and sell part of the goods.

Upon the subject of deeds it must be borne in mind that those of a homestead must be signed by the wife or

they are absolutely void. It is also essential that a wife join in order to cut off dower right which exists in all of the husband's realty held by him during the existence of the marital relations and entitles the wife to the enjoyment during her natural life of one-third of all his lands upon his decease. In some of the states the husband and wife must join in all deeds of the wife's lands. The statutory requisites for mortgages of real property and their record are practically identical with those made necessary for deeds.

Conditional sales are regulated by statutes in very many of the states, and in these statutes are generally included all forms of sale or lease of personal property, reserving the title in the vendor or lessor until payment is made by the person who is given possession. Among the early decisions there was a decided struggle over the right which one, who bought from the conditional vendee in good faith for value, and without notice of the conditional sale, should gain by his purchase. Some of the cases insisted that he should get a good title free from the right of the vendor. Other decisions arrived at the opposite conclusion. In most of the states a statute providing for record has settled this whole dispute. In Louisiana, however, conditional sales are treated as absolute sales as to third parties. In Pennsylvania a pure contract of conditional sale is void, but property may be bailed or loaned to another by which the same result may probably be accomplished. In Massachusetts, even after the vendor has seized the goods, the vendee is entitled to redeem them. In Missouri before the vendor is entitled to take the goods from the vendee, who is in default in making payments, he must tender back to the vendee all payments made by him reserving not more than 25 per cent as rent or hire for the property.

Another point which this treatment of contracts would not be complete without considering, is the matter of seals. The derivation of the seal is very interesting. Ordinarily, when the majority of people were unable to write, each individual had his peculiar sign or seal, and

having placed this, his mark upon his obligation, he was treated as having assented to it just as we today treat a contract as having been entered into when it has been signed. The necessity for this seal continued to exist even after writing came into general use, and exists to-day in very many of the states, seals being necessary on many papers relating to land in order that they may be entitled to record. The seal, however, is a very different thing in most of the states from what it was formerly, a scroll being generally sufficient when it contains the word seal, or the letters L. S. In two of the states, however, it is still necessary that an actual individual seal be used. Thus in Maine and Massachusetts a scroll is not sufficient, although in Rhode Island and Connecticut, and most of the other states the scroll is enough, and in several of the states the seal is absolutely unnecessary.

We have thus endeavored in this brief compass to call attention to some of the peculiarities of the law relating to contracts, and to point out the dangers which may surround people doing business in many jurisdictions.

## CHAPTER XIX

### Books of Account in Law.

**T**HE history of accounts and of the keeping of account books carries the student back into the most ancient times of which we have any knowledge. Some of the earliest of the tablets found at Ninevah and about Susa and Persopolis were tablets of merchants showing their accounts with their customers and with themselves. These were kept much in the same manner that the merchant of today keeps his day book and his journal. The double entry was not known. Many of these clay tablets found in the ruins of the ancient cities of Chaldea bear evidence of date many thousands of years before Christ. Some of them two or three thousand years before the time of Moses. They relate in the main to transactions in slaves, cattle, grain, cloth and jewels. A slightly later example of the same sort of thing are the tables which were interchanged at the sale of lands. The Egyptian merchant also kept accounts, and papyri at the time of Moses and earlier are quite common. In later times in Greece and Rome the books of account were a common part of the store and shop. These also in the early times were accorded a place in many ways more important in judicial proceedings than that accorded the account books of modern times. We have examples as ancient as two thousand years before Christ of the Chaldean Courts passing upon the liability of a party evidenced by the plaintiff's book of account, and find that it was put in evidence and recognized at that time as of great weight

in proving that the defendant was indebted to the plaintiff.

As we have seen, these account books were kept in various ways; on tables of stone, tablets and cylinders of clay baked like bricks, and on paper made from the papyrus plant along the Nile, and on the skins of animals among the ancient Roman or Germanic tribes. In short, in all nations and at all times, back to the time at which history begins, the account book in some form or other has been used as a means of determining a party's liability or of keeping the state of the merchant's transactions.

Account books are in the main used in the law, either to supply the substance of a pleading called a Bill of Particulars or as evidence to support the suit. When used as evidence to support the suit or to defend it, it may either be as evidence of the account between parties to the suit, as evidence of the account between third parties when relevant to the issue, or as evidence of the account between some third person and one of the parties to the suit. It may be stated as a general rule in each of these cases that the account book is admissible in evidence under certain limitations, which will be gone into more in detail hereafter.

I propose first to discuss the value and use of books of account to substantiate or disprove a claim in the law courts. In approaching this phase of the subject it will become necessary first to get a general insight into the fundamental principles of what we term the *law of evidence*. Courts and juries are supposed, and rightly so, when they have been called to hear a case to either have no previous knowledge of it or to lay aside all such previous knowledge before entering upon the trial, and to use only the information gained upon the trial in arriving at their decision. This theory, while it frequently fails of application in actual practice, is founded upon the soundest principles of our common law.

Our system of evidence and method of adducing proof is the outgrowth of many centuries of careful and

conscientious effort to retain that which was best in the practice of every generation, and exclude that which was undesirable. The result has been that the admissibility of evidence is hedged about with rules, not one of which can be called useless, and every one of which makes toward the attainment of justice. There is not one of them that is unimportant. Not one rule but what is a mile-stone along the road of human progress and along the way of the advancement of free institutions. They are to be respected. We hear a great deal of railing and mockery at the methods employed in our law courts. It is suggested that in criminal trials a criminal is enabled by technical means, and particularly by the application of these rigorous rules governing the production of proof, to escape that which is deemed his just deserts. The reason for this cry shows more clearly than anything else how wise it is that conservative men upon the benches and conservative men at the bar abide by that which the wisdom of generations has proved to be wise.

The fact that the people at large draw their conclusions in regard to man's guilt or innocence, or in regard to the justness of a particular claim, from that which they hear upon the street, from that which they read in the newspapers, all partisan accounts untrammelled by that powerful weapon of justice, cross-examination, shows of how much value it is that this theory should be made more potent in actual practice than it even is now, that juries and courts should exclude from their mind all previous knowledge in regard to the transaction which they are to try, and should only listen to the evidence which is adduced under the rules which more than any other system in the world makes for the production of that evidence alone, which is worthy of credence, and for the exclusion of that evidence or testimony, which is unsatisfactory or unworthy of belief. It is undoubtedly true the law many times, in the application of these rules, does not secure the end for which it was designed, but this is not so much the fault of the system as it is the



fault of the men who are called upon at that time to administer it, and if these men are found deficient in ability to administer that system which the jurisprudence of the centuries has produced, how much better could they be expected to administer a different system born of more rapid ingenuity and conceived by a less mature judgment. Leaving this then with the conclusion that we are to deal with a system of limiting and adducing proof better than any other which we could at this time gain, not better perhaps than what we may hope to gain in the future, we may lay down our first general principle, that the law always requires the best evidence which it is possible to produce. By best evidence is meant that which bears most indelibly the ear marks of truth, the stamp of verity, that which is least likely to be misleading. The difficulty with the cases lies in the fact that there is but little uniformity in regard to the rules which are applied to the production of books of account in evidence in the different states and commonwealths.

Where the Roman law prevails, as it does on the continent of Europe and to some extent in Scotland, account books are given a great deal more weight than is the case where the common law prevails. They are, under the Roman system, of great force and weight, and are sufficient to make the case of the one who produces them in the absence of positive proof either of their inaccuracy or equally good proof on the other side that the account is not as stated in the books. It will be our burden therefore to bring out the rules from the multitude of conflicting cases which govern the production of books of account in evidence, remembering always that the best evidence of which the case is susceptible must be produced. Ordinarily this best evidence is considered to be some writing signed by the parties, and bearing upon its face the unequivocal stamp of its genuineness. That is it must come from a source which clearly shows that it has not been tampered with or that it could not have been tampered with. Further, it must be substantiated in some

manner to show that it is what it purports to be, and these are the two points of difficulty which concern the production of private books of account. First, they are subject to the imputation that they have been made and kept by interested parties, therefore that they are partisan in their nature and do not come from a source which stamps them indelibly with the mark of truth. In the application of this principle we come to the division between account books which are admissible and account books which are inadmissible, and to the first principle which governs the admissibility of such books, viz., it must be shown to be the regularly kept account of the tradesman or shopkeeper who introduces it.

In many states, viz., Colorado, Illinois, Michigan, Minnesota, Maine, Ohio, Connecticut, Maryland, Delaware, Vermont, Virginia, Texas and North Carolina, the admission of a party's own books are regulated, or either expressly permitted or recognized by statute. In substance these statutes provide that when in a civil action a claim or defense is founded on a book account any party may testify as to the account book and items, that the book is a book of original entries, and that the entries therein were made by himself and are true and just, or were made by one since deceased, or by one who is disqualified to testify, and that such entries were made in the usual course of trade. Upon such oath being made the books become evidence in the case and are entitled to be received and shown to the jury. It is absolutely essential that these books which are to be admitted in evidence shall be shown to be the regularly kept account of the person who is producing them, and that they be shown by him to contain the entries of his account made at the time or nearly at the time when the goods or other things charged for were delivered or furnished.

In *Kibbe vs. Bancroft*, 77 Ill. 18, it was said an account book to be used as evidence should be the book containing an entry of transactions in the store, factory or office as they occur in the regular order of business. In

that case a book was offered, at one end opening Bills Receivable, and at the other end opening Bills Payable. Under the last named head the last entry previous to the one upon which the suit was based was a transaction more than ten years previous to the one in suit. The Court said that it would appear from that that the book had become obsolete, had been laid aside and used merely for this entry. It was also held that a single entry does not make an account book; that therefore the book was not admissible either at the Common Law or under the Statute of Illinois as an account book because it was simply evidence of a single entry and was not competent as proof.

A similar rule was enforced in the case of *Kotwitz vs. Wright*, 37 Tex. 82, where a cash book of one party was offered in evidence to show his account. The Court said the cash book of one party is not admissible to prove the items therein charged or entered against another. The book of daily entries under proper circumstances and with proper restrictions may be used in evidence, but the rule has never been extended to the admission of memorandum or cash books, or other books of occasional entry without proof of the correctness of the items therein entered.

In harmony with our fundamental proposition, that the best evidence of which the case is susceptible must be produced, and that the books of account must come from a source which entitle them to be believed; the rule universally demands that the entry shall have been made in the book by someone whose duty it was to make such entries, as a regular clerk or book-keeper, or the party himself, and this rule is exactly as important and is as strictly enforced as the requirement that the books must have been kept for the purpose of containing such entries, which we have dwelt on above. Formerly the rules did not permit the admission of a party's own shop books when the entries were made by the party himself. This, however, is not the case in the United States at the pres-

ent time, and entries made by the party himself in his own shop books are admitted. This has been opposed upon the ground that it is contrary to the rules of the Common Law, inasmuch as under these circumstances the entries are from a source which does not give them the advantage of disinterestedness to enhance their creditability. Coming from the party himself they are subject to the imputation that they might be made in any amount and to any extent without the salutary check of cross-examination, and the ordinary tests to which the testimony of a party is subjected. This objection, however, to their admission is not valid, for another rule, the force of which is equally as potent as that of which we have spoken applies here. This rule is the one which admits declarations and acts which are so intimately connected with the transaction concerning which the evidence is adduced as to exclude the possibility of that time for deliberation which enables one to trump up a charge or concoct a falsehood; technically called the *res gestae*. Therefore, when the entries had been made at the time and are the original entries of the transaction they are held to be admissible under those rules which govern the admissibility of transactions immediately connected or contemporaneous with the main fact which it is sought to prove. The same rule is that applied in injury cases where the exclamations of present pain indicating suffering are admitted but where declarations of prior agony are excluded.

In harmony with this rule admitting books of account, either where the entries were made by the party himself or by his clerk, it is required that the entries shall have been made at the time of the transaction or immediately after it. Thus it has been held that the entry must be made at the time. *Curren vs. Crawford*, 4 S. & R. (Pa.) 3. It is well settled that it must be an account of the daily transactions of the party and not merely a receipt book. It must be in a course of dealing between the parties, and the entries must be made about the time of the transaction. The law fixes no precise instant when the

entry should be made, but it must be made at or near the time of the transaction. The book must not be a registry of merely past transactions, but a memoranda of the transactions as they occur. If it appeared to be merely a registry of past transactions it should be excluded by the Court. If it is not clearly apparent that such is the case it should be admitted and the question left to the jury to determine as to what weight should be given it. Accordingly where the servant of a butcher in accordance with his course of dealing carried goods out to his customers, making memoranda of his deliveries, and the same night or the next day entries were made by the master in his books, each item being checked back and called over by the master and servant to be sure that they were correct, it was held that the entries were made within sufficient time to entitle them to be read in evidence. *Ingraham vs. Bockius*, 9 S. & R. (Pa.) 285. But as in *Walter vs. Bollman* where the book entries were not made until from one to three days after the transactions, it was held that as the entries were not made regularly as the services were rendered that the books could not be admitted, the Court declaring that more than one day ought not to intervene between the time of the transaction and the time of the entry in the book, unless something very peculiar were shown in the nature of the business to the same effect. In *Forsythe vs. Norcross*, 5 Watts. (Pa.) 432, where memoranda was made on a card or slate and not transcribed before four or five and even six days had elapsed, it was held that the entries ought to be made in the permanent book at least in the course of the succeeding day after the transaction, and that the books were inadmissible, inasmuch as they were not made until so long a time after the actual transaction occurred. Likewise in *Vickary vs. Moore*, 2 Watts (Pa.) 458, where the books were made up from scraps of paper carried about in the pocket for one or more days it was held that such books were inadmissible because the entries were not made at the time of the transaction.

On the other hand where daily memoranda of jobs were kept by the men but entries were not made in the books until the next day, and sometimes at longer intervals, it was held as against the objection that the items were not entered in the books at the time when the charge was made, or the goods were delivered, or the work performed, that the objection was untenable. The circumstances, including the nature of the plaintiff's employment, that of painter and glazier, making it impossible for him to enter the items in the book immediately or shortly after the work was done or the materials furnished. *Morris vs. Briggs*, 3 Cush. (Mass.) 342.

Again, the books must be "books of original entries." The term, original entries, is one of very elastic construction, as will be seen by reference to a few illustrations. Thus, as in two of the cases cited in the previous paragraph, entries made in books from memoranda kept for the purpose are held to be original entries. Thus in the case of *Ingraham vs. Bockius*, where the meat carrier kept memoranda of his sales and had his master enter them upon his books at night or the next morning, it was held that the books made up of entries from such memoranda were books of original entry and were entitled to be read in evidence. It is essential, however, that the books be those of original entry, and they will not be admitted where it appears that they are not such books. Mere memoranda made on a slate or on loose slips of paper are not entries, and a day book made from such memoranda is the original, but a counter book or blotter is a permanent record of the business, and where it appears to be still in existence as the only evidence which will be admitted of the transactions, although a ledger, the entries in which are taken from such counter book or blotter is offered. The ledger under these circumstances is not the book of original entries and is inadmissible. *Breinig vs. Meitzler*, 23 Pa. St. 156.

A journal or ledger posted from the journal are inadmissible as books of original entry when it appears that

the original entries were made in a memorandum book which is put in evidence although it does not appear that the entries in the journal were made from the memorandum book.

Bentley vs. Ward, 166 Mass. 333.

As an illustration of the rule in the Pennsylvania case just cited it was held that a ledger account of a blacksmith made up from charges which were first entered upon a slate and afterward transferred to the book, after which the slate was rubbed off, was a book of original entries and was admissible.

Faxon vs. Hollis, 13 Mass. 427.

A still more curious application of the same rule is found in *Smith vs. Sanford*, 12 Pickering (Mass.) 139. Where plaintiff who was in the meat business sometimes sold meat from his wagon, and when he did so wrote in chalk upon the side of the wagon the names of the purchasers, the amount sold, together with the price charged for same, then upon reaching his shop transcribed such chalk marks in a book kept for the purpose, it was held that the book was a book of original entries and was admissible.

The rule then we take it to be that the account must be shown by some form designed by the party who makes it to be permanent, as will be seen by reference to subsequent cases. It is not necessary that a book be kept, but it is necessary that that form which is offered in evidence is the form designed by the party to be permanent. If such is the case, although the entries in the book or account were made from memoranda, the account book and not the memoranda is the book of original entries and admissible in evidence. If, on the other hand, the original entries were made in a permanent form, subsequently transcribed on a ledger, the ledger is not admissible as a book of original entries, but the day book or counter book, as it is sometimes called, is the proper account to be offered in evidence. It is sometimes necessary, however, to offer a day book and a ledger together when it

is apparent that a transcript has been made. This is not for the purpose of proving the account, however, but is merely for the purpose of enabling the adverse party to satisfy the court that there had been items of credit entered upon the account. It is not error, therefore, not to admit the ledger when it is called for, but if it is called for and if it affirmatively appears that there has been a transcript made both the day book and the ledger must be offered in evidence.

The decisions as to what a book of account consists of are as various as could well be imagined upon any question. This is caused by the fact that different states have had the question up at different times, and, therefore, under varying social and educational conditions. It must be evident to any observer that very much less could be received as a book where primitive conditions exist or under pioneer circumstances than in the vicinity of great commercial centers where the science and art of accounting and of keeping accounts is more fully developed. The court always struggling to get at the facts, when it is shown that what was introduced was the best the party could keep, has been willing to admit very primitive systems of books. Thus, for example, one who produced as his book of original entries a small stick cut and notched in a variety of ways by which he undertook to prove an account running through two or three years and consisting of a number of items from days' work, sale of hay, to the hire of oxen and the sale of ox hides, was permitted to give the book in evidence and explain what was meant by the notches.

Warren vs. Burton, 2 Har. (Del.) 288.

So also scraps of paper, although the Court admitted that they were very irregular as a book, have been admitted in evidence.

Smith vs. Smith, 4 Har. (Del.) 532.

The Court in another case saying that they are books of original account simply without the binding.

Taylor vs. Tucker, 1 Ga. 231.



In other jurisdictions, however, and at later times entries upon loose sheets have been denied the force of evidence as account books.

Jones vs. Jones, 21 N. H. 219.

Thompson vs. McKelvey, 13 S. & R. (Pa.) 126.

Upon this it may be said that the rule ordinarily requires some form of book, and that these cases in which notched sticks, butchers' carts and scraps of paper, have been admitted as evidence are out of line with the general rule and that a permanent book of original entry, whether a day book, a journal, or a ledger is to be produced.

Books of account may not be admitted to show that a person did not work on certain days, as where an employer's time-book was introduced in evidence to show that a laborer did not work on days which in the table showed a blank.

Lawhorn vs. Carter, 11 Bush. (Ky.) 7.

Morris vs. Potter, 4 Gray (Mass.) 292.

The books of a third person have also been held admissible to prove facts between other parties. Thus, entries in account books kept by three persons not parties to the suit may be received in evidence after the death of the party making the entries when the entries are contemporaneous with the principal facts sought to be proved, and form a link in a chain of events or are a part of the *res gestae*.

Sell vs. Reese, 47 Cal. 294.

The books of account of a physician are also admissible to prove the date of a person's birth in showing the charge for the care of his mother during the confinement.

Highan vs. Ridgeway, 10 East, 109.

As a general rule books which bear evidence of mutilation, as by the tearing out of leaves or the obliteration of items, are inadmissible. This rule being based upon the salutary principle that they bear upon their face evidence of fraud. It is altogether probable, of course, that if the mutilation were explained satisfactorily, and so

that no question could be raised, that they would still be admissible, but it is a general rule that mutilated books are inadmissible. Thus, where leaves have been cut out, as in *Lovelock vs. Gray*, 14 Colo. 53, or where sheets have been torn, as in *Cheever vs. Brown*, 30 Ga. 904. To the contrary, however, see *McLellan vs. Crofton*, 6 Me. 307, and *Jones vs. DeKay*, 3 N. J. Law, 511.

Likewise where the books show manifest alterations, as by obliteration or erasures and changes, it is mutilation.

*Churchman vs. Smith, Whart. (Pa.) 146.*

So where it is evident, as from the color of the ink or in any other way, that a particular entry has not been made entirely at one time it impairs the creditability of the book and warrants its exclusion.

*Bougher vs. Conn. 17 Phila. 81.*

On the other hand leaves from account books have been held admissible when it is proved that they contain the entire account which was contained in the book.

*Allen vs. Davis, Tappan (Ohio), 60.*

Generally speaking the proof that a book is a book of original entry and was made at the time or about the time of the transaction, of which it is a record, should be made by the person who kept the book. This needs no logic or reasoning to support it. On the other hand is not absolutely necessary that it should be made by such person, and it may be supplied by any person who has knowledge of the facts, and who can speak from that knowledge. The cases have often gone so far as to permit the admission of such books without proof when it is shown that the party who made the entries is dead or incompetent, and when this evidence is followed by proof of the habits of such party as to making the entries, the general rule is well stated in an early Georgia case, that of *Taylor vs. Tucker*, 1 Ga. 231, in which it is said the books are first to be submitted to the inspection of the Court, and if found free from all fraudulent appearances or circumstances such as material and gross alterations, false

additions, etc., and appear to contain the first entries or charges by the party made at or near the time of the transaction to be proved they are competent. If the contrary is discoverable from the books themselves, or comes out upon the examination of the party who offers them they ought to be rejected. After the books have been found by the Court to be regular and fair the next step is to produce the party who kept the books, testifying that they were kept in the usual manner or to prove the handwriting of the party who kept them and to prove that his habits were those of accuracy, and that he was accustomed to keep correct accounts. This may be done usually by the parties who have had dealings with him. In some cases it is necessary to go a step further, by showing that there had been dealings between the parties concerning whose account the books are offered.

Attached to every pleading which sets out as a cause for action one side of an account the court may require, upon motion of the adverse party, the attachment of a Bill of Particulars. This Bill of Particulars should be composed of items taken from the party's book and correctly describing the account between the parties, setting out as near as may be the date when the goods were furnished or when the services were rendered, the nature of the goods or services, and the price charged. This is one of the very important parts of a book-keeper's existence in a lawsuit, and while it is a very simple thing to draw a Bill of Particulars when one knows how, it is something that is very frequently poorly done.

We cannot pass this subject without referring to another principle of the law, and that is when a party has sent a statement of his account properly drawn from the books to his debtor, and the debtor has either retained the statement for a considerable length of time without criticism or has assented to it as being correct the law declares that to be the stated account between the parties. The same principle applies when the parties have gotten together and have agreed upon their account. In either

case an action at law will lie upon the account stated and upon its production in evidence and proof of the facts it conclusively supports the plaintiff's case. The account so stated and complied with or agreed to is as binding as a written contract.

We have sought in this brief summary of the more important principles of the law relating to books of account to show the importance of the subject, the necessities for care in keeping books, and of education in the necessities of such books. It is not enough to merely transcribe the entries in the day book or journal into the ledger and then cast the former aside. These must be retained for in case a suit should be brought upon any of the accounts contained in the ledger, the items of which appear in the day book, this last must accompany the ledger into Court, and is really the one upon which the owner of the books must rely to substantiate his case. Generally speaking, in the law the ledger is of little consequence. It is merely a convenience for the parties.

## CHAPTER XX

### Going to Law

**W**HEN one "goes to law" one hires a lawyer. The lawyer and the credit man are complementary parts of an unpleasant necessity.

No credit man likes to go to law to collect an account or to protect his interests. First and foremost the mere fact that he has to do so is a reflection on his conduct of his department. The less law suits a credit man has the better for his reputation as a careful grantor of credits.

It hurts his house in the sight of its creditors, arguing ineffective management.

The commercial lawyer is an outgrowth of our business methods. A lawyer once said to the writer: "I employ two assistants and twelve clerks to do the work that a little judicious, painstaking cultivation of foresight would render unnecessary." While we may not be willing to indorse so broad a statement yet there is certainly a grain of truth in it. In the matter of law, as well as in other things, credit men trust rather to hindsight than to foresight, "save at spiggot and lose at the bunghole." The grievance of the credit man against the lawyer is that he will not work for nothing—and the grievance of the lawyer against the credit man is that he expects something that may save him thousands, and which is a part of the lawyer's stock in trade, for nothing.

The credit man is, or should be, primarily a business man.

The average lawyer knows little or nothing about business as business. When oil and water mix we may expect a satisfactory result from the union of two such forces.

The commercial lawyer who stands an exception to the foregoing never has a word to say about credit men and their grafting propensities. It is the little lawyer in some remote country hamlet who gets a small claim from a city concern, dawdles over it for sixty days while he talks it over with his friend, the debtor, and then holds the remittance up another sixty to ninety days, ignoring the credit man's inquiries in the meantime, who is the man denouncing "the credit man's graft." Lawyers pay little attention to collections for individual concerns at a distance. There is too little in it. The big ones turn the collection business over to student clerks, or representing some one of the larger collection agencies, organized to handle in a systematic way hundreds of accounts for many different concerns.

When a credit man decides that he will go to law, he wants to leave indecision behind. The dockets of our civil courts are crowded with cases that will never be brought to trial. The credit man simply loses his nerve and decides he will not throw good money after bad.

Some lines of business are prolific of law suits. Where no foresight has been able to stop the growth of the trial list, the credit man should hire the best lawyer he can and go after his case. Expenses of law suits are important items in the credit man's departmental account, but it does not pay to temporize.

Get a reputation for giving full measure, for being generous in times of pressure and panic, for charity towards misfortune, but by all you hold sacred or profane, get a reputation for getting the last ounce of flesh from the man who tries to "do" you in any manner, shape or form.

Nothing will weed out the dishonest applicants so quickly as a reputation such as that.

When it is a question of law, take it to a lawyer unless you know an exactly analogous case bearing on your point.

It is an old adage of the profession that "a man who is his own lawyer has a fool for a client."

A mere knowledge of book law become absolutely ridiculous before the sinuosities of the skilled practitioner. "Nine-tenths of the law is practice," said a Philadelphia lawyer, "the other tenth is what the Court thinks it knows about your case."

The best commercial lawyers recognize that "victory perches on the banners of compromise." It is not well to drive a victory home too hard.

Just because you can lick a man is no reason why you should kill him.

The first thing to do is to convince the debtor you are thoroughly in earnest; second, convince him you have a case; third, get the settlement with as little disturbance to the debtor as possible.

*But do not let him rest.*

Know what your lawyer is going to charge. It is human nature for him to think he was very clever in getting the money, or that he worked very hard if he doesn't get it—in either event he thinks he should be paid.

As we have said before, when once you have decided on the law, take the express.

The law is slow enough.

In Pennsylvania, for instance, a claim in excess of \$100 has to go to the Common Pleas. When less than \$100 it goes to Magistrates' Court, who generally know little of the law and care less, and hand down their decisions in favor of the collection lawyer who hands them the business. It can then go on appeal to the Common Pleas. It generally takes two to three years to get a case tried.

No wonder collection lawyers have learned the noble art of compromise!

The filing of a suit will often bring the debtor to terms, however, and as a club it is valuable, for it often precipitates a crisis.

Use the law sparingly. Lawyers themselves are hugely entertained by its weird uncertainties in these days of loose commercial thinking upon the part of the masses from whom your jury is drawn.

The time to go to law is before the account is opened.

Find out where you are likely to stand when you have to sue.

In the debtor states, for instance, the whole law is thrown about the debtor to protect him from the just and the unjust. Remember one thing, you have criminal creditors as well as dishonest debtors. The law in states where the population is non-manufacturing and mainly belonging to the debtor class as in many states of the South, and some in the Southwest and West, the laws affecting sales' agreements are frankly protective of the debtor to the last letter.

Recently the Department of Commerce and Labor issued an interesting monograph on Foreign Creditors in Bankruptcy proceedings in foreign courts. The following quotations are interesting to firms doing an export business on a credit basis:

FRANCE.

The laws of France do not require that foreign creditors shall be represented before the courts by an attorney. This procedure is not alone superfluous, but also dangerous; for the attorney's fees are not regulated by law when dealing with foreign creditors, and can be very much in excess of that prescribed by the French law.

In France it is customary and advisable in a case of bankruptcy to appoint a local executor: most of these men belong to the commercial courts. These officials



look after the interests of foreign creditors with a great deal of care, and, as a rule, obtain very good results. The usual method of procedure in such cases is for the foreign creditor to receive an official notification of the failure from an executor wherein he offers his services. If one has no regular representative at the place of failure, it is wise for him to accept the executor's offer and sign the power of attorney which he always incloses.

#### RUSSIA.

The laws in Russia pertaining to bankruptcy are very severe. A merchant in Russia can be declared bankrupt if his liabilities exceed 1,500 rubles (\$772.50) and he has not the ready cash to meet the same. He can be arrested, and his retention depends on the good will of his creditors.

It is claimed that this law has a very good effect on the business world, for it destroys the opportunity of a certain class of business men to shirk the responsibilities which they have toward their creditors.

A creditor who enters claim against a bankrupt must deposit 75 rubles (\$38.63) for the cost of court. All foreign creditors must make claim within twelve months after date of failure, otherwise their claims are void.

In Russia the court publishes the fact of the bankruptcy, but gives no official notification to the creditors. For this reason foreign creditors know nothing of the existing conditions until it is too late.

For the above reasons it would be wise for exporters to keep a watchful eye on their outstanding debts in Russia.

#### ITALY.

In Italy creditors have the right to demand 6 per cent interest on all debts not paid when due. Regularly accepted drafts which are not honored at expiration can at once go to protest, but must pass through a notary's hands. The court executor can perform this duty, but the law demands several days' grace before the belongings of the debtor can be sold.

All business men in Italy are compelled to keep two account books, and each and every transaction must be entered in each of these books. When a page is full, a government official comes and examines the same; and, if he finds it in order, stamps, numbers, and signs it.

In case a merchant is pressed for payment by a creditor, and he can prove by his account books that his resources are greater than his liabilities, the court will grant the merchant six months' time to settle up with his creditors. During these six months his business is watched over by an official from the court and a representative of the creditor or creditors.

In the case of bankruptcy, creditors must send in their claims to the official who has charge of the case. All claims of foreign creditors must be attested to in order to show correctness of the creditor's demands.

#### TURKEY.

All cases of debt between Turks and foreigners are dealt with in the local courts. In such cases a consulate's dragoman is present to protect the interests of the foreign creditor, and to see that the court proceedings are in keeping with the law. In Smyrna foreign creditors have a still greater protection, for, apart from the dragoman, there are two other consular representatives at the court.

In case plaintiff and defendant are of different nationalities the court is held at the consulate of the defendant. It is claimed that it is very hard to get justice on the ground that the sympathy of the court (consulate) is usually with the defendant, and under these conditions the costs of court are very high.

Foreign merchants who find it necessary to bring suit against insolvent Turkish firms will always do better to compromise rather than bring the matter to court; for, as a rule, there is but little left for the creditor.

#### NORWAY AND SWEDEN.

In these countries the only thing for a creditor to do is to send in his claims and make sure that the same

are recognized. After this has been done, he has the right to refuse to accept the propositions offered by the bankrupt, and can insist upon court proceedings in case he believes the bankruptcy was brought about with dishonest intentions.

In view of such conditions, it would be well for the credit man to do his legal work before he let an account get on the books.

But this is only another evidence, needless however, of the necessity for foresight and the uselessness of hindsight in the credit man's work.

## CHAPTER XXI

### Organization for Obtaining Credit Data—Weakness of the Mercantile Agency Service—The Credit Clearing House

**F**OR fifty years the changes in the methods of obtaining credit information have been changes of intent and not of performance. Few advances have been made in the character and credit value of the data, whatever has been made in the methods of handling it.

Two factors must co-operate to make reliable credit: The debtor and the debtor's creditors.

The debtor of a necessity tells the best story he can. His statement represents his best showing.

We turn to the other creditors.

We are balked.

We find too little co-operation among manufacturers and the larger interests. Each creditor has sat mute and isolated, hermit-like and dignified, refusing to be drawn into a discussion of any account on his books.

This attitude is most unfortunate, but its prevalence cannot be denied.

It is almost ludicrously illogical. If creditors do not combine for mutual protection who in the name of common sense is going to protect them?

If a new law is to be rushed on the statute books we find the credit bodies and the Boards of Trade and the Chambers of Commerce "resoluting" and stirring up a fine dust to have it done. They want to make it illegal

to do almost anything that a sane business man should not do, for we Americans are law crazy, anyhow. Many of the laws we put on our statute books are never enforced, for a very simple reason, the majority does not want them enforced.

What are you going to do about it?

Pass more laws making it criminal not to do what you commanded should be done?

Who is going to enforce them?

There is no panacea in a statute—let the credit men's associations but once get that into their collective heads. We do not think we are in error when we say that half the commercial cases on our dockets could be prevented if merchants would try their cases before they granted credit.

There is starting a great reform in this direction. Credit men are the logical means of bringing business houses together for the purpose of exchanging their ledger experiences. No mercantile agency, no independent credit bureau, can do what a few trained credit men can do by meeting occasionally and comparing notes. So far this idea has penetrated but locally.

If the National Association of Credit Men is to become the power that lies inherent in the idea of a national organization, and in the quality of its brains, it is in the organization of local bureaus, having the object of exchanging ledger experiences on local business, and through sectional bureaus East, West and South, exchange the ledger experiences of members throughout the country.

The time will come, and at no far distant day, when creditors as a class will understand their interdependence more completely. It is to the interest of merchants to prevent panics just as it is to the interest of banks. No one merchant can go to the wall without the credit of all his neighbors being more carefully scrutinized. It is to the benefit of all to see that the dishonest debtor and the incompetent be refused credit. It needs no argument

here to point out the value of such co-operation as has been cited above, in the case of debtors who today can go from town to town throughout the country gaining credit and misusing it in every town, yet escaping punishment.

It is some satisfaction to put such men behind the bars, as statutes provide, but wouldn't it be a great deal more satisfactory to have those men spotted, tagged and marked? It seems almost too much to ask of the mercantile agencies to change the way they have been doing business for half a century. Even if they should change it seems to us their methods of gaining the information, through representatives in many cases of little or no commercial training, would defeat its own end. Credit men would be more willing to give credit men such information as they might possess, when they would not give it to private corporations for the latter's benefit and enhancement—but let us to a more particular line of thought.

The following able article by Mr. F. G. Helmbold, former manager of the Philadelphia office for Bradstreet & Company, and now secretary, The Central Trust & Savings Company of the same city, presents the story of the agency's service with all its realizations:

### THE MERCHANTILE AGENCIES.

**T**HEIR inception dates from about 1840, when through necessity, a few New York business men commenced exchanging information respecting their debtors.

This subsequently became a business on the part of one or more individuals, and a small fee was charged for a written report. Later on a small rating book was published, with a lock attached so that secrecy could be preserved; this containing about 20,000 names of prominent merchants, in several states contingent to New York. In 1859, for example, in the state of New Jersey, only business houses in the towns of Newark, Trenton,

and Paterson were included, and about 219 names as against 50,000 published at the present time.

The business was considered large when upward of 30 men were constantly occupied in the details of office work, condensing, copying, giving out reports and carrying on the correspondence. One hundred ledgers of from 600 to 700 pages each, were sufficient to keep the records.

The business has now grown to such proportions that no less than 160 to 170 branch offices are required to cover the field. Offices are maintained in the principal cities throughout the world.

In the territory of each office, correspondents are employed and at certain seasons, country reporters traverse every district, obtaining data, which they compile in the evenings and forward to their respective offices. Every court house in the United States has a paid representative, who telegraphs to the nearest office all unfavorable data, entries of records, such as suits, judgments, chattel mortgages, and liens of every description.

The task and expense of conducting their business may readily be grasped when one agency reports that they are publishing in their general reference book, the names of over 1,300,000 individuals, firms, and corporations. The changes for six months required the insertion of over 171,000 names. Over 150,000 names were obliterated; changes made in rating and styles over 147,000; alterations in bank list figures over 18,000, making the total changes during the first six months of 1903 over 489,000; an average of 3,239 for each business day.

The vast amount of labor represented in the revising of the rating and for which the above figures have been quoted, does not include the many thousand reporters' revisions which were made but did not affect capital or credit ratings.

Credit is founded upon confidence, and confidence in turn is derived from accurately compiled and impartial information. The commercial world now realizes more

than ever before the extent of its dependence upon the agency service.

Each office is under the guidance of a manager. In the larger cities he has his assistant. The office is divided into the local and foreign departments, each under their respective heads. The employes are numerous, and in a city like Philadelphia, it probably requires the employment of about 150 individuals by each agency, to handle the business. The managers are men of intellect and ability, in receipt of salaries on a par with the average banking president and cashier. The reporters receive good salaries and are employed probably not on the basis of collegiate education, but upon their ability to make their meaning plain in the reports which they compile. Their work must be agreeable, otherwise the agencies could not retain their services from year to year; and in known cases, men have been connected with their agencies from 20 to 30 years.

The cost of general agency service, to merchants or banking houses, is \$100 per annum. This includes two reference books, published six months apart, containing the names of merchants and manufacturers throughout the United States and Canada. Also a list of all banks. Included is the privilege of receiving 100 special reports, upon merchants in any part of the country. It is usual to subscribe to a contract as quoted, notwithstanding that the books are published quarterly and contain thousands of changes. To be sure a weekly list of changes and other important items is sent the subscribers, but these are easily mislaid, and as your risks are changing from week to week, where are you, when you refer only to the printed ratings? The two extra books cost \$50 additional, and they are necessary for correct diagnosis.

To better illustrate the work of the reporters and explain the time required to return you a finished report, we will follow the agency inquiry from the time it leaves the subscriber.

We will presume that an inquiry is mailed this day



to the local office. It may not be received until the following morning and along with it are several other inquiries amounting into the hundreds. These inquiries are assorted, the foreign from the city or local, and then they are arranged alphabetically, and an employe goes to the cases or files, where all information is kept and takes from it the report on the party inquired upon. Should there be a report, a duplicate copy is made, it then goes to the proofreader, who compares figures, if any are given, and from his hands it passes again into the mailing department, and subsequently is sent you, either by mail or messenger.

The trades are classified, and the reporter works only on the lines assigned him. He becomes familiar with his classifications and develops inside and positive information, valuable to the subscriber.

We will presume that the party inquired upon has never been written up before, or that the report is too old to be of value to you; if the latter is the case, the report sent you will be stamped, "will send later." If there is nothing on file, a ticket is given to the reporter, but it may not be until the next day that he is able to call. He may find the party out, or reluctant to give any information, in that event the reporter's work stops on that case for the day, and he may have to make numerous calls before interviewing. If information is refused he must seek in channels where this party would probably be known, and get together sufficient information to write his report.

With original inquiries, the judgment records must be searched, or should a statement be submitted efforts must be made to confirm these figures. If real estate is claimed, the real estate man must make a search of the property showing when title was acquired and the encumbrances thereon, if any.

His data in hand he returns and dictates his day's work to a stenographer; perhaps it is then 4 P. M. His reports are not finished until he reaches his desk the

next morning, when he reads over each report carefully for errors; if correct the report passes to the change book clerk, who also reads carefully for errors, in condensing historical data, statement figures, and if the rating is lowered or increased, makes the proper entry in his book, which at the proper time becomes printers' proof. The reports then pass to the city desk, and from there to the mailing department.

The details in handling a large business are enormous. All this necessitates time, and delay is the principal cause of complaint that is heard against the agencies, yet the information is not delayed and there is no system which would permit of returns being sent you more promptly, at a profit to the agency. It is just as reasonable to expect a bank to collect a check on a California bank overnight, as it is to expect the mercantile agencies in every instance to return a proper report the same day the inquiry is made.

In important cases it is advisable to send a messenger and have him wait while the record report is copied, and in cases of necessity wire for additional information at your own expense.

The costs are indeed small considering the advantages offered. Neither merchant nor banking houses could transact business promptly or efficiently without agency assistance. Credit insurance would be almost impossible, yet the latter item has saved many thousands of dollars to the merchants.

I have heard the agencies criticized for delayed and worthless service. This I regard as unjust and cannot be sustained in argument.

The agencies may properly be compared to huge machines, made up of numerous intricate parts, all human, therefore liable to occasional error. Their reports are not guaranteed correct and should only be used to supplement the work of the credit man to arrive at conclusions.

Considering the amount of business transacted en-

tirely upon the reports or ratings, without effort to substantiate their correctness, their work is creditable indeed, and their errors infinitesimal.

The reports can be divided into three classes: high or good, medium or fair, and unfavorable. In the latter case, the credit man's work is ended satisfactorily, and in the other classes there is always an element of risk and uncertainty.

With a proper credit department in banks, many agency statements as to capital, earnings and manners of payment, might be proven false and misleading. References have been known to issue false reports, in the hope of boosting a weakened risk, so that they can recover in full.

The banking interests require a service which is far more difficult to render than that called for by the regular subscriber. While there is some truth in the statement which has been made frequently of late years, that a bank which loans its own and its depositors' funds is really a merchant whose merchandise is money, and who sells it upon credit to responsible parties, there is still a material difference between the business of loaning money and that of dispensing credit in commodities; the profits in the case of a bank, being the current rate of interest, are smaller than those supposed to be realized by the manufacturer or wholesale dealer. The credit is for a longer term, the commodity dealt with in the case of the bank, disappears immediately it comes into the possession of the purchaser, and cannot be followed or identified, in case the necessity for doing so should arise.

The money borrowed by a merchant from a bank is an invisible, while his purchases of merchandise are a visible asset. In estimating the price of his commodities, the prudent manufacturer or wholesale dealer adds a margin to cover his legitimate business losses; and if he chooses may become indemnified by the means of credit insurance for all losses in excess of the average of his business for a period of years.

The bank which sells its money can add nothing to the profit it makes, to cover current losses, nor can it secure indemnification for its excess losses.

It is, therefore, apparent that while the merchant requires from the mercantile agency, information which will enable him to determine whether or not his proposed customer is a fair business risk, the bank requires or should require information which will enable it to determine whether or not its proposed customer is an absolutely safe business risk. It is obvious that the task imposed upon the agency in one case is far more difficult than in the other. The difficulty is increased by reason of the difference in the methods pursued by the banks and by merchants in all matters pertaining to the extension of credit. The merchant who has escaped the trammels of a conservatism, which was once regarded as good business policy, but is now entirely out of date, expects to give about as much as he receives in the way of credit information, and pays his subscription to the agency not more for the excess of information which it furnishes him, than for its services as a medium through which he exchanges his own knowledge and experience for that of other merchants who do business with his prospective customers. The banks, with few exceptions, give out nothing or as little as possible, and expect to receive everything. They are secretive as to the character of the accounts their customers keep with them, the amount of their loans and whether the same are paid at maturity or renewed wholly or in part. It thus often happens that two or even three banks within a stone's throw of each other will be discounting paper for the same merchant for the same amount, and each one in the belief that it is loaning him all the money which he borrows. The secretiveness and conservatism of banking institutions very often mislead the reporting agencies and through them the merchant's creditors as to his financial responsibility and business prosperity. This of course frequently reacts upon the banks themselves. It is very

seldom that financial disaster overtakes a manufacturer or wholesale dealer, or large retailer, without the disclosure of the fact that he was owing the banks anywhere from two to five times as much as his indebtedness to these institutions was supposed to be. If the banks had been more frank and candid in their replies to the inquiries of the agencies as to the amount and character of their loans and securities, their own losses would have been no greater, but probably less, and the merchandise creditors, who are, very possibly also the banks' customers, and debtors, would have been much smaller.

The reliance placed by banking institutions upon the financial statements of borrowers often leads to misplaced loans. Indeed with many of them, a statement is the only proper method of extending credit. The mercantile dispenser of credit wants a statement, it is true, but he insists upon having, in addition to it, all the collateral information he can get and as large a resumé of the trade experience with his customer as the best agency facilities enable him to procure. Upon the strength of statements alone, or practically alone, banks not only discount the papers of their customers, but buy from brokers the paper of business houses which are entire strangers to them.

The banks require considerably more from the agencies, but they do not pay any more for their service. They fail to realize that they are greatly in the minority as subscribers and expect the agencies to incur additional expense for them alone. Liberal treatment has been extended by the agencies and in the past three years they have placed at their disposal a banking reporter who many times is called upon to do the work properly belonging to the detective agencies.

They can request the reporter to call for instructions and report them verbally (if the case is local), together with numerous attentions valuable to the bank. It would not be unfair if the banks were charged double rates for a service requiring their inquiries to take precedence of

all other work and they would be making the best investment open to them. No more promising movement in the mutual interests of the banks themselves and the agencies which serve them could be instituted than an effort to reach a general agreement to pay double rates for their mercantile agency subscription.

In the line of improvement to prevent losses the proper course is to relieve your cashier upon whom it falls to obtain the data for the directors to pass upon the loans and discounts. In many instances his long and honorable service entitles him to an assistant, to relieve him of petty details.

Establish your own credit department and pay a good salary to this employe, to be one who thoroughly understands credit investigation, capable of inspecting plants, stocks of merchandise, and who can personally call upon merchants and banks, in or out of town, for information. Let his work be directed by the cashier. The cost incurred will unquestionably be offset by the new business he will solicit, and by the failures you will have avoided.

Greet the agency reporter as a good friend, endeavor to assist him in his work. He has confidence in you and will always be willing to tell you all he learns.

This confidence has not been reciprocated generally by the cashiers.

The merchant is liberal in his treatment of the agency men, and cultivates their friendship. He is also more liberal and spends on his credit department considerably more than the banks, employing at a good salary a competent man.

I realize that expenses must be kept in hand, but it is poor policy to attempt business without proper tools.

#### STOCKHOLDERS AND DEPOSITORS.

The manufacturer or merchant is doing business with his own money and is responsible only to himself for losses, while the bank receives its capital from depositors and stockholders, who expect every safeguard as well as dividends.

Try and imagine a vote on the part of depositors and stockholders on the question of the increased cost of maintaining a credit department, an item of only several thousand dollars. I believe it would be unanimous.

Mr. Helmbold has given us one side of the case. Many of us will recognize the attitude of the agency man in what Mr. Helmbold has said; but we do not think that the gentleman would for a moment contend that the agency service as at present conducted, is all that can reasonably be desired or expected. In the following Mr. E. F. Morgan, treasurer of the National Furniture Company, Atlanta, Georgia, and president of the Credit Men's Association of that city, points out "Some Defects of the Commercial Agency Report System," and makes some suggestions of a practical nature.

One of the things which has really surprised credit men is that the older and larger mercantile agencies still cling to the old methods of ratings and reports, while the newer and smaller agencies covering special trades have put in new features that have been very valuable to the subscriber and at the same time have seemed to be able to do this without burdensome expense. The prices charged by these agencies covering special trades are far below the prices charged by the older and larger agencies, and while each one covers only a certain line and those allied to it, the service rendered to those extending credit to merchants in that line is incalculably better than that given by the large general agencies. The points of superior service may be classed as follows:

First: Ratings as published in their books.

Second: What is known as "Clearing House Reports."

Third: Reports furnished on signed subscribers' tickets.

Fourth: Price.

I will discuss them in the order named.

We find in the general agencies about seventeen or eighteen signs for financial responsibility, and about eight for credit standing, besides the "blanks." Some of the special agencies have no less than twenty signs for capital rating and eighty-five to one hundred signs to apply to credit. The old way seems to be to give as little information as possible in the ratings and the new way to give as much as possible, which is just what a subscriber wants. If a man be rated in the old way as being worth \$3,000 to \$5,000 and has a second grade of credit assigned him, your information ends there, and in order to find out why the man does not enjoy first grade credit rating a special report has to be sent for. If an up-to-date agency book is at hand, however, the desired information may be had. The rating will be found to be possibly about the same as that given in the other book as to financial responsibility, if it happens to be higher we find beside it probably a sign "21," which tells us that this capital rating is assigned on a signed statement, or we may find that there is no capital rating assigned, but instead another sign meaning that the party refuses to make a statement. But we want to find out why the second grade of credit is assigned. All right, here it is,—a little figure, or two figures,—which mean "Takes off discount in violation

of terms," or "Chattel mortgage on record," or "Kicker, hard to do business with," or "Pays when ready, no regard for terms," or it may be that we find three or four of such signs against a man's or firm's name, and when we do we are not surprised that he does not enjoy a first grade credit rating and we may fail to understand why he is as high as second or even has any at all. Not long ago I brought up this point with a manager of one of the general agencies and he replied: "If we furnished all of this information in our book of ratings you would not need any special reports." There you are "in a nut-shell." The question is obliged to occur to us, however, "If some mercantile agencies furnish all of this information in their books and still have calls for large numbers of special reports, why cannot others do so and by giving better service to subscribers cover any increased cost or reduced revenue by a larger list of subscribers?" It will also undoubtedly occur to some that it is likely that an agency which does not want to give too much information in its books, because this might curtail the getting of special reports, would not exercise any too much care in the getting of such special reports on account of the fact that they cost a little money sometimes.

Of late years the one feature of mercantile agency service that has attracted the most attention and given most satisfaction to credit men is the clearing house of ledger experience used by some mercantile agencies. We may be pleased when we get a nice order to look in the reference books and find the party well rated, but if the book is four months old we are better satisfied if the name of our prospective customer is put through the clearing house and found to be paying everybody promptly *now*. In my own experience I have seen many orders turned down when the parties giving the orders had good ratings in the reference books at hand, the reason for declining each one being that the name has just gone through the clearing house and the party found to have dropped away from his former record of prompt pay. It is not unusual for such comments as these to be placed opposite a name: "Formerly prompt, slow now." "Asking extension." "Forces extra time in giving notes." "Will not answer letters about past due account," etc. There are columns in these clearing house reports in which to give "amount owing" and "amount past due" and a glance at the number reporting on a name, the amount owing to that number and the amount past due, together with the comments such as are mentioned above, ought to show to any credit man a danger signal and warn him to put brakes on the line of credit that party has had and proceed to collect the account due by him. There is still another column, usually, for giving "Orders pending shipment," and many a credit man has saved his house a loss by discovering in this way that a customer was over-buying. Of course, the clearing house idea is co-operative and does not yield the best results of which it is capable solely because many credit men have not yet waked up from the idea of finding out all they can and telling nothing, and they therefore do not take the time and trouble to report through the clearing house each week, as some do and as all should do, in order to get the best results. We must take this into consideration, however, when we read the results of the clearings and know that what we see is only a part of the truth, but will probably average very well with the whole, so that we at least have *some* information, fresh from others' ledgers, which will be of benefit in extending any credit. This class of information can be had in no other way and is worth more to credit givers than any other information they get.

It may be asked, "Why should the special reports of one mercantile agency not be about as good as those of another, since they are practically all furnished by local attorneys, the same one often reporting for several agencies?" There may be differences of opinion as



to the cause of this difference, but all who have used the general mercantile agencies and the special agencies know that there is a difference in favor of the latter. It may be that more is demanded of the attorney by the special agencies, it may be that they pay more for the service, or it may be that the information is more carefully handled and prepared in the office of the special agency where there is no doubt less detail work for those whose duty it is to get up reports to furnish to subscribers. But on this point the service furnished by the mercantile agencies is more open to criticism than any other branch of their service. If anything can make a credit man "get on his ear" it is to have a large order waiting marked "Rush" and get in a report something like this:

"Jones, Wm. H.

Jonesville, Jones Co., Ga.

"This party recently came here from Smithton, at which place he is said to have been in the dry goods business. It is not thought that he accumulated very much while in business at Smithton, though it is said that he owns a house and lot there, which is not known to be encumbered. He could not be seen at his place of business when correspondent called so no statement could be obtained from him. He has a stock of goods estimated to be worth \$2,000, but it is not known how much he is owing on same. Without a showing from Jones it would be difficult to estimate financial responsibility."

Not a positive statement in the whole report except that he came from Smithton, and could not be found at his place of business in Jonesville! There is not a credit man who reads this article but will see in the above almost the very wording of many so-called reports he has received from different mercantile agencies, even the ones he regards as the best agencies. We don't want surmises, we can sit in our office and draw mental pictures of what a man *may have*; we don't want guesses, we are as good guessers as any class of men on earth, for the poor service of the mercantile agencies, particularly in special reports, has forced us to extend a large amount of credit by guess, so if there is any guessing to be done we want to do it ourselves; we don't want any "not known to be," we want the report to say positively "thus and so" is the case, and we want that statement made after it is found to be *true*. There is not a one of us that would give five cents per dozen for reports like the sample given above, and yet there is not a one of us but has dozens, aye, hundreds of just such in our files. I have fired many a one back to the agency sending it, got a promise that the matter would be taken up at once, and full report issued. The result in almost every case has been that the information desired has to be gotten from some other source, and the order is usually disposed of before the late and full report is received. Delay in furnishing reports—not guesses—causes the loss of much business. A man asking for credit is usually sensitive on the subject, and if his order is held up too long, he cancels and does business elsewhere. One may say, "Well, somebody gets his business and what is one's loss is another's gain." True, but how about the obligation to the man who has asked for the report? Is that nothing? Should he be perfectly satisfied to have a new customer withdraw his business because he has been unable to pass on the credit without a report? The mercantile agency men say "you can't have speed and accuracy too, which do you want?" Both, and we have a right to expect both. Uncle Sam's mails travel from one end of this country to the other, and the only time more than that required for transportation is a day in which to get up the facts and incorporate them into a report. If a property statement cannot be obtained, let all of the other information be gotten, real estate holdings, mortgages, (chattel and real mortgages), judgments, etc., and if a property statement is made let it be verified as nearly as possible and the whole sent in with comments, and general information as to claims handled, local reputation, etc. Put all of this with the latest clearing

house report and give the report to the subscriber. Facts, facts, give us facts! Add any comments that will be of benefit, but don't guess, don't surmise, don't report a thing as being rumored, *give us facts*, and let us do our own guessing, and surmising, and arrive at our own conclusions. The thing most desired is accuracy, and we contend that it can be had without seriously interfering with speed. If it costs more to get accuracy, let it cost, we want accuracy above all things, and I am just now getting to the question of price.

There are various items that go to make up the price of an article, not the least of which is that it should be reasonably suited to the purpose for which it is intended. The fact that the business world is so dependent upon mercantile agency service, including special reports, would seem to indicate that such service is "reasonably suited to the purpose for which it is intended," but the absolute necessity for mercantile agency service of some kind, even though imperfect, accounts for the almost universal use of the agencies by the givers of credit, rather than approval of, or satisfaction with, that service.

There are few men indeed who complain of the price of an article which entirely pleases them, unless the same article or one "just as good" (to use a drug store expression) can be furnished them by others for less money. If an article be inferior within itself, or of lower quality than that to be had elsewhere, then the right to complain of quality or price or both, is not to be denied. It is on this ground that I compare the service of the "general" agencies with that of the "special" agencies, the latter giving a *better* service for *less* money than the former. If they only give better service for the same money or equal service for less money, there would still be a difference sufficient to be of value to the user of the service, but since the service is better and the price lower, the difference must be so great that no credit man familiar with the facts can lose sight of it in arranging for his mercantile agency service. And let it always be remembered that the price of mercantile agency service is not the thing to be most considered, but really the smallest thing in importance in connection with it. Make the service as nearly perfect as it can be made and there will be no kick on any reasonable price charged. Of course the agency or agencies that can and will furnish satisfactory service at the lowest price, will have the preference over others, but, as already said, the first consideration is quality of service and the price is a secondary matter.

Let it not be thought that I am the champion of any particular mercantile agency, or kind of agency. In referring so often to the special agencies in this article, I have merely done so for the purpose of comparison and in order to show what is sorely lacking in the service furnished by mercantile agencies as a whole. No agency of which I have any knowledge, approaches a perfect or even satisfactory service to its patrons,—not even the special agencies which have put in new features and have made some progress in that direction. The best service that I know is subject to criticisms for inaccuracies in ratings and special reports, so serious as to make the credit man feel constantly that he is taking great risks in extending credit on any such so-called information and that, after all, he must depend somewhat on his faith in humanity as a whole.

The specific defects of our "Commercial Agencies' Report System" may therefore be brought down to a few words, covering the defects which are the cause of most of the dissatisfaction among users of commercial agency service: lack of accuracy and thoroughness, delay in furnishing reasonably correct reports, failure to introduce new and up-to-date methods, and the giving of too meager information in the books of ratings.

These defects can all be remedied, and I believe without seriously adding to the expense of getting the additional facts needed to remedy them. Surely all that is necessary to get reports that are statements

of facts is for the agencies to demand them from their correspondents and traveling representatives and accept no other kind. There is no question as to the ability of a good lawyer getting the *facts* as to property ownership, mortgages, etc., from the records and these with a signed statement, verified as far as possible by traveling representative or some competent authority, form a basis for the capital rating. The comments of those having sold the account recently, such comments to be had by a clearing house system, will enable an agency to assign a pay rating in keeping with the actual record as shown on the ledgers of people having sold the account. Have a third column in the book of ratings in which special signs may be placed giving information not now given by the general agencies, except in special reports. If a subscriber asks for a special report, it can be furnished in a few days from any reasonable distance and if it is not in hand in a reasonable time, the agency should be able to show a very good reason why and to do so without waiting for the subscriber to complain of the delay. If it costs more to furnish a service that is reasonably perfect and satisfactory than to furnish that which is now furnished and which is so far from perfect or satisfactory, then charge more for it, but above all things give us *accuracy*. We do not look for anything absolutely perfect but there is such a wide difference between the service gotten now and that which we need in order to properly conduct our business, that a vast amount of effort may be expended before approaching the mark of perfection.

The retailer has been the greatest sufferer from poor credit methods.

Necessity is a force that makes strange bedfellows, and retailers are gradually realizing that it is the worst sort of folly to keep their losses to themselves and to permit the bad credit risk to prey on the trade generally.

In the principal cities bureaus have been established to handle the exchange of what is called "Ledger Experiences." These bureaus have worked most effectively.

In the retail trade the apparent exception to the marketable commodity basis of credit appears, but the exception is more apparent than real. The law will make a debtor pay to the limit fixed by exemption laws. His labor, his skill, his health have a market value in the eyes of a retailer, because his individual credits are comparatively small and his total widely scattered. Only an epidemic or a panic can hurt his credit accounts, but he must consider antecedents and history of each claimant for credit. The property that comes into his debtors' hands in the way of income or wages can be hidden or squandered before he can obtain his share. Therefore he wants to know that he will be treated properly, and if the debtor within his small sphere, is a careful buyer,

a good manager, and a man of trustworthy character and ability.

To collect this data about a large number of people, individually small buyers and of more or less nomadic life, would be too expensive a proposition for the average retailer. As retail customers generally scatter their trade, many retailers are interested in the same customer.

The merchant's associations, mutual concerns for the exchange of "ledger experiences" have arisen. In other cases private enterprises have met the demand and through merit have obtained the experiences on which their ratings are founded, from their subscribers.

A glance at their methods may prove suggestive. The Credit Reporting Company of Newark, N. J., in a booklet, thus explains its methods:

Heretofore the retailer has judged by the possessions and appearances of those who applied for credit.

If a man came in well dressed and prosperous looking, or if a woman came rolling up to the door in a carriage, they got what they wanted and had it "charged."

If a man or woman, dressed in the garb of the wage-earner, asked credit they were oftentimes refused.

But the merchants have found out by repeated experiences that the clothes do not make the man, that the possession of property or social position does not imply honesty and integrity.

It makes no real difference to the merchant whether the man he trusts has thousands of dollars' worth of real estate or whether he lives in a little flat so long as the man's record is good.

Does he pay his bills?

That is the question the merchant wants answered.

That is the question we answer for him.

Our Company does for the retailer what Bradstreet and Dun do for the wholesale dealer. We arrive at the result, however, in a different way. We give accurate information as to how people pay their bills regardless of their financial standing.

This information we get from merchants and professional men by means of a thorough canvass of our entire territory. We visit all people doing business, whether our subscribers or not, and in this way secure the names of all consumers in business or in private life.

We are thus able to tell the grocer how Mr. B. pays his butcher, his tailor, his hatter, his doctor and every other trade or profession he deals with, and each of these in turn is furnished with the same kind of information from the grocer; thus we establish the exact credit standing of Mr. B. with the entire trade of the city.

Acting upon information thus furnished, every merchant or professional man in the city knows from the most reliable and trustworthy source to whom he can safely give credit and whom he should refuse.

For example, we here give a specimen rating with an explanation of the same.

"John Doe, carpenter, 187 Broad St., 5G 2F."

This rating indicates that five different merchants have found by experience that John Doe is a prompt paying credit customer, and two other merchants have found him somewhat slow but regard him reliable and trustworthy.

Next example:

"John A. Doe, lawyer, 210 North Second St., 4D 3B."

This rating indicates that four different merchants have found him too slow in paying to be a desirable credit customer, and three other merchants have found him bad pay and unworthy of credit confidence.

We cannot indorse the paragraph dealing with the sort of a man to trust. As a bit of special pleading it may be correct, but we venture the statement that it matters a very great deal whether a man has "thousands of dollars' worth of real estate," etc.

Such a statement cannot be supported by logic or business experience.

After we have ascertained a possible risk's possibilities of payment, i. e., examined into his ability to pay, whether he is earning enough to warrant such a line of credit; if his employer is likely to employ him further, and if the business is permanent, and so on, in fact to ascertain whether the debtor is likely "to have the equivalent to exchange at a future time," we are then in a position to grant credit on a legitimate basis.

Then the man's paying record comes into play. His character enters into the case.

It is not the dishonest we must guard against so much as the incompetent, applies to the laboring man, the salaried man and the merchant alike.

The company whose prospectus we quote from, furnishes detailed special reports, of which the following is a fair example:

Brown, C. E.  
Paints, Oils, Etc.

Res. 63 93d Av., Newark, N. J.  
Bus. 9829 Wide St., Newark, N. J.

#### ANTECEDENTS.

Middle aged, married, an old resident here, quoted of excellent character and habits, industrious and thrifty and comes from a good family. Is president of the Acme Mfg. Co., a New Jersey corporation capitalized at \$50,000.

#### RESOURCES.

Reputed owner of his residence property, assessed at \$5,000, also said to own other real estate and to have money out on bond and mortgage. Is also interested in property in New York City, said interest estimated worth about \$16,000. Several years ago received a legacy of \$25,000, and carries \$30,000 endowment life insurance. Said to hold

<b>C</b>	Good pay.	<b>C</b>	Very prompt in payments.
<b>F</b>	Fair pay.	<b>F</b>	At times, or generally slow pay, but account in the whole regarded a desirable one.
<b>D</b>	Slow pay.	<b>D</b>	Very slow and irregular in payments. An undesirable credit account.
<b>B</b>	Bad pay.	<b>B</b>	Unworthy of credit confidence. Generally owing accounts long past due.
<b>?</b>	Habits of payment not yet established.	<b>?</b>	New comer or new account, habits of payment not yet established. Experience insufficient to make reliable rating.
<b>O</b>	Held to cash.	<b>O</b>	Held to cash transactions as the best policy, or on account of no experienced credit information.

### DEFINITIONS

### TO KEY:

The figures appearing before a letter signify the number of merchants giving the same report.

### CHARACTERS USED

- †—Business or occupation of husband.
- \*—Last known address.
- s—Signifies that a "special report" is on file at this office for instant use.
- x—Refers to additional information on file at this office, many have no bearing on credit or reputation.
- c—Claim or past due account left for collection.

Figure G.

a controlling interest in the Acme Mfg. Co., which concern is in a good financial and industrial condition.

#### SUMMARY.

Authorities well informed conservatively estimate his net worth from \$35,000 to \$50,000, and in high credit standing. Has enjoyed liberal lines of credit locally for a number of years, in all instances his patronage is sought and the risk is regarded A. 1. for all his requirements.

#### TRADE EXPERIENCE.

No. 20—"Sold upwards of 10 years in amounts of \$50 to \$200, payments very prompt."

No. 42—"Sold 6 or 7 years, highest credit \$500, pays prompt 30 days."

No. 12—"Sold on and off for the last 15 years, monthly charges ranging from \$10 to \$200, pays at sight."

No. 102—"Sold moderately 2 to 3 years, payments prompt 30 days."

No. 82—"Account on our books upwards of 6 years, charges moderate, prompt pay and credit unquestioned."

No. 123—"Account opened Jan., 1897, purchases \$75 to \$100 monthly, pays on sight of bill."

The "trade experiences" are the exceptionally valuable element in this report. The statement of "resources" is too indefinite.

This same company issues an annual, in which are listed the risks of the city and vicinity. This list is keyed so as to give the information as shown in Fig. G.

The methods of obtaining the information from retailers relative to their customers varies. The Retail Grocers' Association of Chattanooga, Tennessee, uses a "Confidential Report" form as shown in Fig. H, which gives good satisfaction. These individual experiences are collected and issued in a report to members, as follows:

Early, John M., motorman C. E. Ry.....	P-M-R
Early, J. A., minister, Sherman Heights.....	2P-2M
Early, J. H., lawyer, 1018 E. 9th St.....	2P-6M-6S
Earnest, T. L., Ry. employe, 22 Fannin St.....	3P
Earnhardt, Mrs., 106 Lindsay St.....	M
Earp, L. W., mining .....	S
Easley, J. P. (c), lawyer .....	P-M-S-R
Easley, Sim (c), wks. N. & C. Ry.....	2R
Easley, S. M. (c), wks. R. T. Ry.....	S
Easley, Tom (c), wks. Mtn. City Mills.....	S
Eason, A. B., Cleveland, Tenn.....	M-R
Eason, Ed. (c), laborer.....	P-2M
East, A. J., 13 McMillan Ave. ....	P

The number opposite the letter indicates the number of merchants making a similar report. The "c" that the bureau has a claim for collection.

The organizations like the Chattanooga Association

## CONFIDENTIAL REPORT

# RETAIL GROCERS ASSOCIATION CHATTANOOGA, TENNESSEE

REPORT No. 1793

**KEY OF RATING**

P—PROMPT PAY—Parties who pay their bills when due.  
 M—MEDIUM PAY—Parties who pay their bills within 30 to 60 days after due.  
 S—SLOW PAY—Parties who allow their bills to run from 3 to 12 months after due.  
 R—REQUIRE CASH—This rating indicates that the experience of the business man giving it has been such with the party rated that he would not extend him any credit whatever.

**NOTE**—Remember it is your actual experience in dealing with a customer that is valuable, and is the real basis for the ratings you give him. *Propriety, likes or dislikes, should not enter into your ratings at all.*

NAME	INITIALS OR FIRST NAME	OCCUPATION OR STREET ADDRESS	Check the Letter Indicating Your Rating of the Party			
			P	M	S	R
Smith	John R	Operator 19 Jones Ave		✓		
Brown	William	Supt. Finigan + Co		✓		
White	Horace	Lawyer				✓

Figure H.



are purely co-operative. The members are the merchants who furnish the data for the reports. Each member receives a yearly Reference Book, in which the names of buyers are published, together with the experiences as indicated.

The membership fee in these mutual bureaus is small, \$15 in most cases, and from the fund so obtained the expenses of a paid secretary, assistants and printing are paid. The method used for obtaining the information protects the business of each member insofar as the amount of the individual's transactions with any one merchant is concerned. The Newark concern has the additional feature in its special reports of giving, as in the special report on C. E. Brown, quoted, the amounts of sales. It will be noted that the merchants are protected, however, by a system of numbers, presumably known only to members of the agency.

The one considerable element of danger in the matter of leaving the ratings largely in the hands of the individual merchant is the variance of honest opinions.

If human nature were infallible in its judgments, if it were even approximately accurate, the few directions relative to "Good Pay," "Fair Pay," etc., would be sufficient. But these terms have no fixed commercial meaning. The Credit Reporting Company (mentioned in the foregoing) meet this demand by endeavoring to instruct their merchant reporters in a way that shall standardize the terms. In a booklet, "Suggestions in Making Ratings," they say:

#### GOOD PAY—G.

Persons who meet their obligations promptly should be rated—G. We mean by prompt pay the person who pays as he agrees, needs no demands or duns for payment. If a customer buys goods and agrees to pay in 30 days and pays in that time, he is Prompt Pay. If the agreement is that he is to have 6 months or one year and he pays at the end of said time without dunning or demands for payment, he is Prompt Pay. No matter how much time is extended for payment by agreement, if he pays at the end of said time he should be rated as a Prompt Payer, which we designate by the letter—G.

#### FAIR PAY—F.

Persons who meet their obligations with a fair degree of promptness or soon after demand has been made, should be rated—F. The

person who agrees to pay in 30 days but usually takes 50 days and in some cases 2 months or more, should be rated Fair Pay; also the one who agrees to pay in 6 months but takes 7 months. The fact must be taken into consideration that in many cases the merchant himself is to blame for the person being negligent about meeting obligations. "Would not a person be Good Pay if proper attention was given to the collection of his account?" This should also be taken into consideration by merchants when making ratings.

#### DOUBTFUL PAY—D.

Persons who have to be continually dunned and are very negligent about their obligations should be rated—D. It happens in many cases that this rating should be and is properly applied to many individuals of large means. While their account may be considered entirely safe, some merchants are in a position to carry them, but others are not. With the former the account may not be altogether undesirable, but with the latter it is an undesirable account and one which the merchant would rather not have on his books. The Pay Rating report, however, in either case should be—D.

#### BAD PAY—B.

This rating should be applied to all delinquent debtors whose accounts represent a false asset on the creditor's books, even though they are legally responsible. If the merchant is obliged to sue in order to get his money, the customer is a Bad Payer and should be rated—B.

#### DISPUTED ACCOUNTS.

When making ratings you should never take into consideration a disputed claim. A customer may dispute your account and honestly believe that he has good cause for doing so, although he may be wrong, and if the matter was brought before the courts might be so proved. However, he has the right to his opinion until it is proven to the contrary. Therefore never rate anyone as undesirable pay simply because he disputes a claim. Do not take any one transaction into consideration at all.

#### OCCUPATIONS.

Always give business or occupation of each person rated. Very often they serve better for identification than the house address. Of course, always give both if possible.

#### WHO TO RATE.

Rate every customer on your books with whom you have an open or active account, and with whom you have had credit dealing to an extent sufficient to make your rating of actual experience thoroughly reliable for the guidance of other merchants.

#### EXPERIENCED REPORTS.

Actual experience in real transactions better qualifies a person to state what credit should be given to the party dealt with than the opinion of any person unaided by actual experience information. The procuring of these experience reports and revising them from year to year is in itself a very trying task, and especially so when it is taken into consideration that this work must be done in the very shortest time possible in order to keep the Trust Book close to date.

We therefore trust every subscriber will furnish new reports and revision of old ones as soon as possible. It is a small task for each merchant, individually, to review his ledger accounts, and repays him many times over for his labor.

This method has had a most beneficial effect on the value of the ratings for it has tended to make the ratings mean some particular thing to everyone using them.



MERCHANTS' PROTECTIVE ASSOCIATION, OF PORTLAND, OREGON  
CREDIT DEPARTMENT

# REPORT

FRONT AND ANKENY STREETS

**NOTICE:** No member shall communicate the reports of this Association or mention that having been made to any person. All information is strictly confidential.

Total Indebtedness	Paid Due	Exp.	Dis.	Presump.	Rdr	Mtr	Vry	C.O.B.
Total Indebtedness	Paid Due	Exp.	Dis.	Presump.	Rdr	Mtr	Vry	C.O.B.
Total Indebtedness	Paid Due	Exp.	Dis.	Presump.	Rdr	Mtr	Vry	C.O.B.
Total Indebtedness	Paid Due	Exp.	Dis.	Presump.	Rdr	Mtr	Vry	C.O.B.

Figure J



M.C.A.T.M  
CREDIT DEPARTMENT

MERCHANTS' PROTECTIVE ASSOCIATION, OF PORTLAND, OREGON

# REPORT

FRONT AND ARKNEY STREETS

**NOTICE:** No member shall communicate the reports of this Association or meeting that imply has been made upon any name in evidence. All information is mutually confidential.

Total Individuals		Paid Due	Rep.	New	Disc.	Prompt	Slow	Very Slow	G.O.D.
Total Individuals		Paid Due	Rep.	New	Disc.	Prompt	Slow	Very Slow	G.O.D.
Total Individuals		Paid Due	Rep.	New	Disc.	Prompt	Slow	Very Slow	G.O.D.

Figure J

Another great difficulty with the mercantile agency report is its lack of timeliness. Quick service is necessary. The secretary of the Merchants' Protective Association of Portland, Oregon, writes of this element in the work his association does:

"We ask a report of John Jones, Centerville, Oregon, today. This name is listed with other inquiries on a sheet like Fig. I, then a copy of the sheet is left with each subscriber in the afternoon. The next morning at nine o'clock these inquiries are gathered up, the information totaled and published to subscribers on sheets like Fig. J, which are delivered in the afternoon with the day's list of inquiries. \* \* \* \* The secretary of the clearing house has at various times found that certain subscribers had withheld information—had not given it exactly as the books showed. They were warned that a repetition would mean forfeiture of their membership. The repetition never occurred. As an example of the value of this reporting: We called for a report on a customer up in the country from both the clearing house and the agency. The agency's report came in promptly, showing the customer to be well to do, plenty of everything, and a good, big surplus. The clearing house showed him owing in Portland several thousand dollars and nearly all past due.

"'Habit of Pay' showed up with two new accounts—one, 'fair'—five, 'slow'—twelve, 'very slow'—three, 'C. O. D.' It is needless to say we did not ship.

"The agency's report was correct at the time taken, but a drouth, bottom out of the wool market, and a few things like that, put the up country customer to the limit of his credit. This was the result of the agency's reporter not being in touch with the community and in not reporting it as often as he should, and the jobbing houses urging goods on this man when they should have been holding him down and collecting."

The co-operative bureau has come to stay; its work

is giving the most satisfactory results. The mercantile agency must profit by the success of this "clearing house," or it must be content to sink to a secondary consideration in the credit man's work.



## CHAPTER XXII.

### Collecting and Recording Credit Information

**T**HE questions of the basis of credit; the influence of existing conditions in a business on the credit risk; the importance of obtaining certain information about a debtor have all been discussed at length in this book, but this information is of little value without a proper system for its permanent preservation.

In taking up the question of systems for the credit man the first thing to be considered is the manner of securing the desired information, after which follows the question of permanent records. If, in our discussion of these questions, it occurs to the reader that too many forms are presented, we ask him to bear in mind the fact that many varied lines of business require the use of widely different forms. We shall endeavor to present a sufficiently varied class of forms, with suggestions for their uses, to meet the requirements of any business establishment.

For the purpose of distinguishing the different classes of credit information we divide the business establishments under discussion into two general classes: (a) Manufacturers, Jobbers, Wholesalers, and (b) Retail. The class of information and the manner of obtaining it is practically identical in the case of the three first named; while the retailer must depend on entirely different sources and secures information of an entirely different character relative to his customers.

Considering the first class the completeness of the information secured, as well as its reliability depends, a great many times, on its source; therefore we would secure information from as many different sources as possible. As to the available sources we have, *First*: The reports of the commercial agencies; *Second*: Financial statements furnished by the customer at our request; *Third*: Direct reports from local correspondents; *Fourth*: Reports of traveling salesmen.

Both the first and second sources have been ably discussed in other chapters, so we will not consider either their form or their merit. As to the third source—reports from local correspondents—these can undoubtedly be made of great value, if proper provision is made for obtaining such reports.

The reason that these reports have not always proven as valuable as might be is largely due to the fact that in too many cases they have been badly handled. The credit man never thinks of asking for information from local sources until he is up against the proposition of granting or refusing credit; and of course has made no provision for obtaining such information. He turns to his Bradstreet or Dun and looks up the names of a bank and a couple of local attorneys and to each of these sends a letter something like this:

Will you kindly advise us in confidence as to the general reputation of Jones & Co., who have applied to us for credit on an order amounting to \$27.60.

Thanking you in advance for the information, we are ....., etc.

An attorney in a well-known Ohio town has favored us with a card (reproduced in Fig. 1) which is actually sent out, without even an accompanying letter, by a firm who ought at least to know better. One can imagine the class of information that comes as a result of such an inquiry.

Here are a lot of questions that even an attorney in

Dear Sir:		11/14 1902.	
I will please report, in Confidence, as to Character, Responsibility, etc.,		Yours very truly,	
of <i>J. B. Jones</i>		<i>Doe &amp; Roe</i>	
Mdse.	Realty	Cash	Other Means
Encumbrance on Realty		Other Indebtedness	Total Worth
Character	Habits	Business Ability	
Do you regard safe for	on	time?	
If not paid, can you collect?	Ever Fail?		
REMARKS:		Sign	

Figure 1.

a cross roads hamlet could not answer intelligently off hand. In the average town or city, to answer these questions, would require several hours' careful investigation—that is, if facts are wanted. If a guess will answer—well, that's another question. The only hint of possible remuneration lies in the question, "If not paid, can you collect?" On the bare chance of getting a claim for collection, after all other methods have failed, the attorney is asked to furnish as much information as is collected by the commercial agencies who may have fifty customers who are liable to pay them for the same report. If the man bears a good reputation and pays his bills promptly, the attorney has no hope of a reward for his services.

If we were the credit man for this firm we would first establish local correspondents in every town in the territory covered by our house. As new territory was opened up we would get the name of a reliable attorney or bank in each town. These names can be easily obtained from the published lists of attorneys and banks who make a specialty of handling commercial collections.

To each of the names so selected we would address a letter stating that our house was entering their territory; that we expected to have occasion to call on them from time to time for credit reports on merchants in their town, for which we should expect to pay them a fee proportionate to the services rendered; and finally that any accounts in their vicinity which we were obliged to place for collection would be sent to them so long as our dealings were mutually satisfactory. Then we would feel justified in sending out such a blank as we have shown and believe we would obtain satisfactory service. If the information proved unreliable, or the fees charged were exorbitant, we would quickly find another correspondent.

Traveling salesmen are very often in a position to furnish information about the business and general standing of a customer which cannot easily be obtained from

NAME	SALESMAN
ADDRESS	DATE
Does his business seem prosperous ?	Is it growing?
Is his stock kept in good shape?	Is it properly displayed?
Does his stock appear to be low?	Is his store kept clean?
Does he employ competent clerks?	Do they attend to business?
What is his standing in the community?	Does he drink? Gamble?
Has he a good location?	Competition
Buys from	
Do you consider him a man of good business ability?	

Figure II

any other source. As has been pointed out in another chapter, it is too often the case that there is a spirit of antagonism between the sales department and the credit man; whereas, there should be the most hearty co-operation. If the credit man will only see and talk with the salesmen when they are in the house, giving them to understand that he appreciated their importance in the business; that he wants their advice and assistance; that full information from them may justify him in granting credits which he would otherwise be obliged to refuse, he will have no great difficulty in securing their co-operation. While it may not be safe to rely entirely on their judgment, the credit man can secure reports from the salesmen which will prove valuable supplements to the reports received from other sources.

The character of the information which can be expected from the salesman is of necessity quite different from that received from the other sources mentioned. His anxiety to sell goods may lead him to be too optimistic when it comes to financial statements, but his continued observations make him a good judge of ability and general business conditions.

The form shown in Fig. II, which is used by an eastern manufacturer, seems to provide for the class of information that should be expected of a salesman. Here is just the sort of information the salesman is able to give from his own observation and experience. There are not so many questions that the salesman will feel that he is being turned into a reporting agency, they are easily answered, most of them requiring simply "yes" or "no" and no lengthy explanations are asked for. And yet, the information given will prove immensely valuable in making a study of credits.

This form is printed on a card 3 inches by 5 inches in size and each salesman is provided with a supply. Whenever he takes an order from a new customer he fills out one of these cards and incloses it with the order.

(USE INK OR INDELIBLE PENCIL ONLY.)

**BRANCH.**

190

[illegible]

NAME OF CUSTOMER.....OR KNOWN AS.....(NOTE—Read carefully Form M2, paragraph No. 7, and supplement to same number.)

**BUSINESS ADDRESS:** .....

**Answer each question. If you do not know, write X in the space intended for the answer.**

7. What is the largest amount owed us at any one time? \$.....
8. How long dealing with us? .....
9. Through what channel do orders come (mail or salesman, or how)? .....
10. Prompt or slow pay with us? .....
11. In what kind do they deposit? .....
12. State fully your reasons for recommending for credit.

6. What terms and limit do you recommend? And give reasons why.

12. Do you now suggest referring to their habits or character?

State full particulars carefully.

If to deal with other firms (futures excepted), give below:

Name Address

Name Address

Name Address

The Certification below must be subscribed to by the Manager, Cashier, and Salesman accustomed to deal with the party, and he must check (thus ☒) "Information" or "Knowledge" (as the case may be) above his signature.

### CERTIFICATION.

From our best obtainable information or our own knowledge, we have replied truly to above questions.

Information

Information

Information

Knowledge

Knowledge

Knowledge

MANAGER.

CASHIER.

SALESMAN.

If either dissent, or desire to further explain answers, write and sign on reverse side hereto.

Figure III



Occasionally he is asked for a revised report on the same form so that the information on file will be up-to-date.

Certain classes of manufacturers who conduct their selling departments through branch houses, through whom the collections are also made, are in a position to obtain from the local managers the information usually embodied in the reports of local correspondents and the reports of salesmen. This is notably true in the case of one of the large packing companies whose forms we present. The firm in question has branches located in all important cities throughout the country.

While each branch house collects its own accounts, credits are only allowed by the credit department at the main office. Where credit is asked at a branch the first step is to fill out the blank (Fig. III), which we illustrate. This form is made in duplicate, the original being forwarded to the main office and the copy retained at the branch.

When the application is received at the main office and has been passed by the credit department, a reply is made on the form shown in Fig. IV. This also is made in duplicate, both copies being forwarded to the branch. After being countersigned by the manager and cashier, the duplicate is returned to the main office, where it is attached to the original application.

This original credit application or statement from the branch forms the basis for all future dealings with the customer, and to it are attached all papers received from time to time which may have any bearing on his credit.

For filing the reports the numerical system of filing is used, a numbered folder being assigned to each customer. These folders are similar to those used in the vertical file, though smaller. They measure about seven inches high by nine inches wide and are filed on edge in drawers of suitable size. The folders are arranged in exact numerical sequence and, to aid in locating each individual number, they are subdivided by guide or index

**THE BIG 4 PACKING CO.**  
BRANCH HOUSE CREDIT DEPARTMENT.

South Omaha, Neb.; 190

REFERENCE	
FILE	ENVELOPE

RE \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**THE BIG 4 PACKING CO.,**

GENTLEMEN: Referring to application for Credit on above:

CREDIT LIMIT, \$ \_\_\_\_\_ TERMS: FRESH MEATS \_\_\_\_\_ PROVISIONS \_\_\_\_\_  
D. S. AND \_\_\_\_\_  
SMOON MEATS \_\_\_\_\_ PHARMACEUTICALS \_\_\_\_\_ GUM \_\_\_\_\_ SOAP \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

NOTED AND RECORDED
CASHIER.
NOTED
MANAGER.

THE BIG 4 PACKING CO.

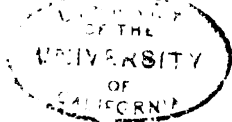
It will be the duty of the Cashier to place this before the Manager for his signature.

PER \_\_\_\_\_ S. H. CREDIT MANAGER.

Figure IV.

Name	H. C. Chambers.	File No.	792
Town	Dayton,	State	Ohio.
Street	416 - 5 <sup>th</sup>		

Figure V



cards numbered by 10's. As the numbers on the indexes are printed on projections which are three-quarters of an inch higher than the folders themselves, they instantly attract the eye, providing quick reference to the one desired.

To index these folders a card system is used, the cards being printed with the form shown in Fig. V. This gives simply the name and address of the customer and the file number. The cards are filed alphabetically, using a set of indexes with a sufficient number of subdivisions to facilitate reference to any desired card. If the credit information on H. C. Chambers is wanted, reference to the file shows that it is in file No. 792—as each drawer of the file holds 300 reports, the papers are quickly located in Folder No. 792, Drawer No. 3.

Each branch house has a small credit file similar to the one in the main office and the credit papers are filed under the same numbers.

Another source of information is through associations of credit men. In some cities these associations maintain credit clearing houses, the expense of which is divided among the several members.

The members of the association report to the clearing house any information that they receive which has any bearing on the credit standing of their customers, and this is at the disposal of any member who may make inquiry. If the information is of special importance it is at once sent to all members known to have dealings with the firm in question. The members usually furnish to the clearing house a complete list of their customers so that they may receive promptly all information affecting them.

Under this plan the special data collected by one house is given to every member of the association without subjecting each one to the expense of obtaining it for himself. Such reciprocal reports as these bring out much valuable data and often are the means of not only

protecting the creditors but in saving the business of the debtor.

As an illustration of the value of these reciprocal reports a credit man relates the following: The house had among its customers a man conducting a general store in a small town, who had always been very prompt in his payments and was considered good for any reasonable amount. One day they received a report from the clearing house showing that he was becoming slow in his payments to another house in the association. Investigation brought out that a partial crop failure in this man's locality had temporarily embarrassed him and that it would be necessary for him to restrict his operations for a time. It happened that the credit man had accepted for his house the order of this man for a large bill of goods which had not been shipped. The credit man wrote to the merchant telling him that he had learned of the misfortune suffered by his community on account of the crop failure, and assuring him that if they could assist him to tide over the temporary depression they would gladly do so. He also suggested that owing to the fact that he (the merchant) might not find it as easy as usual to make collections during the following months, they would allow him to cut down the amount of his order.

The letter had the desired effect. The customer thanked him for his valuable and timely suggestion and cut down the order to an amount justified by the circumstances. The man might have pulled through but with a damaged credit, but it is more reasonable to believe that the investigation started by the report of the clearing house really saved his business. It was fortunate, also, that the report fell into the hands of a credit man with tact—who knew how to avoid a loss without losing a customer.

Scattered information or information not instantly accessible is of little value. A credit man who has gone to the expense of collecting valuable credit information about his customers must have a system of records which

will tell him not only what information he has on file but where to find it. We have seen credit departments in which there was no system of filing and in which the credit man had no idea where he would find a certain report which he knew had been received. With the many modern office filing devices now on the market there is no excuse for this.

In considering a system of filing for credit information the size of the business and volume of papers to be filed must first receive consideration. But one rule which can safely be followed is to file all information about a customer in one place. We recommend filing all agency reports, financial statements, reports of local representatives, salesmen's reports, etc., in one place arranging these in the order of their dates. Then when the credit man desires to analyze all of the information that he has collected in reference to a customer, he is not obliged to look in two or three places for it.

The credit information should be kept entirely apart from the general correspondence or any other papers. Where a separate credit department is maintained, or in any house having a large number of customers, a file should be kept for credit information and nothing else. If the business does not require a separate file, a section of the correspondence files should be set aside for the purpose.

A method, long in vogue, has been to use heavy manilla document envelopes numbered consecutively and filed in document files or cases. An objection to this system is that all papers must be folded, requiring too much time for reference, and that the envelopes hold too few reports. This objection is overcome by the more modern vertical filing system in which a folder is used for each customer. Special files are now made for credit information and the folders are usually about 6x9 inches in size. The reports are pasted in these folders, the last one always on top, so that they may be readily consulted.

Like the old envelope system, these folders are some-

times numbered and a number assigned to each customer. The first objection to the numerical method of filing is that a separate index is required to find the number of the customer, but our greatest objection to the numerical method is the liability of the loss of papers. The common course of procedure is for the filing clerk to place the proper number on the paper and then file by that number. Suppose we have a paper to file in the folder of Johnson & Co. whose number is 950. In placing the number on the paper a transposition of figures makes it 590, and it is filed accordingly. How is the missing paper to be located except by a search through the entire file? On the other hand, suppose the folders themselves are filed alphabetically. We will have a folder for Johnson & Co. with the name written on the outside, filed behind the J-o index guide. The filing clerk may file the paper in the wrong folder, but the chances are about 1,000 to 1 that if such an error is made the paper will be found within two or three folders in front or back of the right one.

An examination of all methods of indexing convinces us that the alphabetical method is the most satisfactory. If the trade of the house covers a large territory, it is sometimes advisable to arrange the folders by states and towns rather than in straight alphabetical order. One of the more simple forms of folders is shown in Fig. VI. This folder is perfectly plain except that on the outside is printed a blank for the name and address of the customer.

In a house having a large number of accounts of long standing these reports become rather bulky with the result that it takes considerable time to "wade through" them to get the information wanted. For this reason, it is advisable to have a transcript of the facts and figures in some other form. Some houses use a folder like the one shown in Fig. VII, which has a form for such a transcript printed on the inside of the lower flap.

We have two objections to this: *First*—These tran-

Name Larson & Co Town Boone No. 190  
 County Boone State Iowa  
 Business Dry Goods Pays Fair  
 Remarks:



Business <i>coal</i>	Acc't. Opened <i>6/1/04</i>	Salesman <i>Smith</i>
Terms <i>90 days</i>	Limit \$ <i>1500<sup>00</sup></i>	Capital <i>5000<sup>00</sup></i>
Dun <i>Yates</i>	Credit <i>High</i>	Reports of References. <i> prompt pay</i>
REFERENCES.		REMARKS
SALESMAN'S REPORT.		
<i>Good local reputation Business growing. Sell 5000 tons</i>		

Figure VII.

Name <i>Tanning &amp; Gentie</i>		No. <i>700</i>
Address <i>Silver Spring</i>		
<i>New York</i>		
Account Opened <i>6/1/04</i>		
July		
Aug		
Sep		
Oct		
Nov		
Dec		
Total		

GLOBE NO. 12 N. F. FOLDER-37004 FORM.

Flap of Folder.

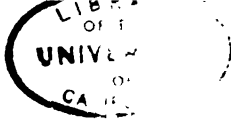
scripts should be in easy reach of the credit man's desk; where the number of customers is large the number of folders and size of the files required makes this practically impossible. *Second*—As the reports increase in bulk it makes too many papers to handle. When a man wishes merely to refer to the transcript he does not want to be obliged to handle all of the reports that have been received.

We prefer using a card index for the transcript, as they are easily handled and require but little room. A wonderful amount of information can be recorded on a card 3x5 inches in size if the card is properly ruled. This is specially true if both sides of the card are used. In using card indexes most people forget that both sides of the card can be used to good advantage.

The cards should be filed in alphabetical order, or if the folders are arranged by states and towns, the cards should be filed in the same manner. With the sectional files now made by all manufacturers of these devices, the credit man can place on top of his roll-top desk a small section which will accommodate 5,000 cards. This places the information right where he can put his hands on it at a moment's notice.

Figs. VIII to XII, inclusive, illustrate forms of cards which are now in use by representative houses. While these are in some respects quite similar, each one has some feature peculiar to itself. These forms furnish an interesting study, showing as they do the different ideas of credit men as to the information that will be of greatest importance to them in passing on credits. It will be noticed that but two of these forms provide for the ledger folio, so that the credit man can secure information about the present condition of the account without requiring the book-keeper to first find the name in the index. Possibly all of the others are using loose leaf ledgers in which the accounts are arranged alphabetically.

Fig. XIII combines a customer's list with the



AND HIS WORK

239

NAME <i>Geo. H. Farley</i>		LEDGER FOLIO <i>217</i>	
STREET <i>416 Main St</i>		TOWN CITY <i>Auburn Me.</i>	
BUSINESS <i>App. Supplemental</i>		STATE <i>Me.</i>	FILE NO. <i>462</i>
AGENCY	RATING	CAPITAL RATING	LIMIT
	<i>Fair</i>	<i>5-10 M</i>	
	<i>High</i>	<i>5-10 M</i>	
BRAD.			
DUN.			
WILBUR			
TERMS AND DISCOUNTS			
REMARKS			
W. W. HAN & SONS MFG. CO., ROCHESTER, N. Y.		176571	2520 5 04
Figure VIII,			OVER

Name <u>L. B. Parsons</u>		House Salesman <u>Jones</u>	
Town <u>Barre</u>		Road Salesman <u>Hill</u>	
State <u>N. Y.</u>			
Terms <u>Net 30 - 12/10</u>		Dating <u>Nov 1st + May 1st</u> Opened <u>Aug 04</u>	
Rating	Reports Received	Personal Report	Indebtedness
Dun <u>C-1</u>			
Brad <u>C-1</u>			
M. & M.			
Statement <u>8/15/04</u>			General Remarks <u>Bears good rep.</u>
Partners			<u>Business prosperous</u>
References <u>Secord Nat. Bank</u>			
" <u>Brewster &amp; Co</u>			
Introduced by			
Successors to <u>Ward &amp; Parsons</u>			
Sold out to			

c 00390

1908 BUREAU OF STANDARDS No. 6 077, U. S. G. Pat.

Figure IX.

<b>Name,</b>		<b>Address,</b>	
<i>David Spalding</i>		<i>Newport Ky.</i>	
New Customer.		Past Experience	Satisfactory <input checked="" type="checkbox"/> Unsatisfactory
Dun {	Cap <i>\$5000<sup>00</sup></i>	Bradstreet {	Cap <i>\$4900<sup>00</sup></i>
	Credit <i>Brought</i>		Credit <i>Fair</i>
Has bought to amount of \$ <i>400<sup>00</sup></i>		Now limited to \$ <i>350<sup>00</sup></i>	
<b>Remarks</b>			
<b>Credit Officers</b>			

Figure X

NAME	<i>Hart &amp; Davis</i>		LEDGER FOLIO	<i>117</i>
TOWN	<i>Mason City</i>	STATE	<i>Iowa</i>	
FIRM MEMBERS	<i>Wm Hart - J. B. Davis</i>			
RATING-DUN	<i>G-3</i>	BRADSTREET	<i>G-2</i>	
SPECIAL	<i>McVey &amp; Co pay good</i>			
REFERENCES	<i>First Nat Bank</i>			
HIGHEST CREDIT ALLOWED	<i>\$200<sup>00</sup></i>			
TERMS AND DISCOUNTS	<i>Net 30 - 1/10</i>			
SPECIAL ARRANGEMENTS AND REMARKS				

Figure XI

Customer's Name *Harvey Hill & Co*  
 Address *Lockport N.Y.*  
 Line of Business *Hardware Specialties*

Pur. Agt. *Hill*  
 Treasurer *F. C. Lee*

Rating *1000<sup>00</sup>*  
DATE AND SIGN WITH RED INK

Black List Per

Sales

Reference *All Lockport Banks*

And

Remarks

Limit of Credit *2000<sup>00</sup>*  
DATE AND SIGN WITH RED INK

Taken from Black List

Catalogue No.

Credit Approved *CHX*

Date *6/14/03*  
YAMMAN & ERBE MFG. CO., ROCHESTER, N. Y.

156697 8M-504

Figure XII



Name	GENERAL		Ledger
Salesman	Barney & Fish	Address	La Grange 96
Line	Barber	Shipping Place	Cerry Railroad
Account opened	Genl Store	Banks with	Citizens Cerry
	3/7/02		

FINANCIAL		OUR ESTIMATE	
Rating	2-3 M	BRADSTREET	1500 - 2 M
Value of Stock	1500 <sup>00</sup>	Including	1400 <sup>00</sup>
Insured for	1000 <sup>00</sup>	Estimated by	Baker
Largest Credit this Year	200 <sup>00</sup>	Date	7/6/04
Our Limit	250 <sup>00</sup>	Manner of Paying	Prompt
Property Statement	4/7/04	Date	8/1/04
		Special Reports	

credit information. This is a very good form as it separates the general and financial information. Fig. XIV shows the form that is printed on the back of this card. This gives some personal information about the members of the firm. The credit man who uses this form evidently relies to a certain extent on the personal character of his customers.

The suggestions which we have made relative to a transcript of the general credit information apply with equal force to the statement. The statements themselves are, as a rule, in such shape that considerable study is necessary to get at the vital facts. Statements need to be "boiled down" so as to bring out the facts and figures for, after all is said and done, it is on the facts shown that credit is granted or refused.

If desired, a transcript of the statement can be made on the back of the credit card, but we prefer to use a larger card, say 5x8 inches, which should be filed in the same manner as the credit cards. We illustrate in Fig. XV a form, used by a large manufacturer, which is printed on a card of the size mentioned. This form will bear careful study. Note how the "quick" assets are distinguished and kept separate from those assets which cannot be so realized on. In the same way the liabilities which must be met in case of liquidation are kept apart from capital and surplus. Then in the summary is shown the excess of quick assets over total liabilities. This brings the statement right down to the point where it answers the question "what would they have left if they were called upon to liquidate their liabilities?"

Another strong feature of this blank is the fact that it provides for a record covering a period of five years, affording a valuable comparison of statements.

When the retailer starts to collect information about his customers, he is confronted with an entirely different problem from that presented to the manufacturer or jobber. The great difficulty with the retailer is that his

## PERSONAL

Name	Geo. Barney	Age	27 yrs	Married	yes	Ability	Good
Name	Chas. Fied		24		no		Fair
Name							
Name	Barney	Habit	Good			Experience	3 yrs
Name	Fied		"				1 "
Name							
Name		Prospects				Pointers	
Name							
Name							
Name							
Name							
Name							
Name							
Name							
Name							

Figure XIV

credit customers are often men without visible assets. This is particularly true in large towns and cities where a small line of credit is asked by the man on a salary. About the only thing the merchant can do is to base the question of credit on the general reputation of the customer, the size of his salary and his reasonable expectancy. And too often the question of granting or refusing credit must be decided quickly without taking time for a thorough investigation of references.

As a rule, the retailer must depend on his own resources for credit information, not having the benefit of information collected by other merchants relative to the same customers. How to obtain the co-operation of all of the merchants in a town so that the bad credit risks shall be known to all has long been a serious problem. During recent years a great deal has been accomplished along these lines by local merchants' associations. In most cities the work of these associations is supplemented by the local credit companies who make a specialty of collecting information about those who ask credit of the retail merchants. Most of these companies collect and furnish their subscribers vast amount of valuable credit information. As a rule they also act as collection agencies, and in this branch of their work get hold of information which it would be practically impossible to obtain in any other way.

A study of the methods used by these companies will be interesting and may offer some suggestions for local merchants' associations who wish to collect their own credit information.

The retail reporting agency is confronted by a difficult problem. In the first place they have no sure way of finding out the exact financial standing of an individual. The men who have a financial standing—who are the owners of property—would not object to giving a financial statement to a reputable and responsible agency, but this class of men seldom ask for credit. Or if they

Name <u>Hampton &amp; Barnes</u>		Address <u>Standusdy Ohio</u>	
Officers and Partners <u>Geo Hampton - Charles L Barnes</u>			
Guarantors-References <u>Farmers National Bank</u>			
Business <u>Carriage Mfg</u>		Acct. Opened <u>Feb 1 '03</u>	Line Closed <u>Dec 00 '06</u>

YEAR	DUN CAPITAL	CREDIT	BRADSTREET CAPITAL	CREDIT	ON PLANT	ON MDSE	INSURANCE	REMARKS
1903	10-15	High	15-20	High	10000	3000		
1904								

COMPARISON OF STATEMENTS	
ASSETS	LIABILITIES
Cash on Hand	Bills Payable for Merchandise
Bills Rec. Customers (Good)	Bills Payable to Own Banks
Accounts Rec. Customers (Good)	Bills Payable for Paper Sold
Accounts Rec. Partners	Open Accounts
Merchandise, Present Cash Value	Mortgages or Liens on Real Estate
Total Quick Assets	Due Wife or Relatives (Any Form)
Bills Rec. Due from Partners	Other Liabilities
Real Estate Property of Firm	
Machinery and Fixtures	
Other Assets	
	TOTAL
	Capital Stock
	Surplus
	Total Liabilities
TOTAL	Total Quick Assets
Average Balance With Us	Total Liabilities
Maximum Balance	Excess--Quick
Sales	
Every	

Figure XV

do, the merchant has no difficulty in ascertaining sufficient information on which to base his decision.

But it is not the men of this class about whom the agency requires information—it is the men who have no property and who are unknown to the merchants on whom they are asked for reports. Naturally, it is rather difficult to obtain authentic information about such men, since practically all of it must be obtained from outside sources rather than by a direct appeal to the man himself.

In connection with this matter the manager of one of these agencies says:

“It is a simple matter for the representative of one of the large agencies like Dun’s or Bradstreet’s to present his card to a merchant, who is always asking credit, and ask for a statement. The merchant fully understands the value of a rating and is anxious to impart full information for his own benefit. But in our line we frequently encounter instances where the individual positively refuses to give any information whatever, and is apparently insulted by the suggestion that anyone should presume to question his credit. Yet we must gather some tangible facts and information which will satisfy our subscribers and make them feel that they can safely base their decisions on our reports.”

Necessarily much of the information must be secured from the merchants with whom the individual has been trading. In too many cases the work of the agency is hampered by the fact that the merchants do not furnish full and complete information, overlooking the fact that the effectiveness of the service depends to a great extent on their co-operation. In the monthly bulletin published by a reporting company in a western city are the following timely suggestions:

“We wish to impress upon you the necessity of reporting to us promptly each month a complete list of all customers to whom you have refused further credit. If the party has stuck you do not delay the report until he

has had an opportunity to 'do' your fellow merchants also. You understand that this system is just as effective as the merchants of this city will make it. All we ask is for each one to do their little part and we assure you that you will soon be convinced that this system is the most effective that has ever been devised for protecting merchants against losses incidental to the extending of credit to retail customers."

Here are some good suggestions for local merchants' associations and also for associations of credit men in manufacturing and jobbing lines.

Along this line of co-operation one of the Chicago reporting companies is successfully conducting a credit clearing house among its subscribers. On the first of each month every merchant furnishes the company with a list of his outstanding accounts. These are tabulated so that the company can always tell the total indebtedness of each individual. This results in a warning to the merchants when a debtor shows signs of going beyond his means.

As to the methods used by these reporting agencies in collecting information, the following is submitted by a representative local company.

1st—Is there any legal responsibility? If so, to what extent? Ascertained by reference to city and county tax book and records as to transfers, mortgages, etc.

2d—If not a property owner, who does he rent from? What rent does he pay? Is same paid promptly? And how long has he been a tenant? Ascertained by reference to one or more landlords.

3d—Does he pay his grocery bills promptly? How long a customer and amount of bills? Ascertained by reference to groceries in neighborhood of his residence, or elsewhere.

4th—Does he pay his fuel bills promptly? How long a customer and amount of same? Ascertained by reference to coal dealers.

M. O. H. Baker 25 Miller  
 (Name to be investigated) (Address, Street and Number)  
 DESCRIPTION IF POSSIBLE.  
 Male ☒ or Female ☐ Give approximate height 5-3  
 (check which gender) (feet) (inches)  
 Give approximate weight 150 lbs. COMPLEXION Medium  
 (Dark) (medium) (Light)

## HABITS AND CHARACTER.

Excellent ☐ Apparently good ☒ Nothing favorable to say ☐

Age 24 DETAILS.

Resided at above address 6 Previous address Hart  
 (years) (months) (No.) (Street)

For 6 Married ☒ or single ☐ If married, how many  
 (years) (months)

in family? 2 Exact occupation Dentist

If employed, where At Home City State

salary \$ 30.00 Weekly ☒ or Monthly ☐ Salary

given positive ☒ or approximate ☐ How long in present position

6 mo Give previous position Snyder  
 (Employer)

Ever obtained credit ☒ or ☐ If so, where Wilcox  
 (yes) (no) (Give name of creditor)

Any real estate ☐ or ☒ Give location  
 (yes) (no)

Encumbrances \$800.00 Valuations \$

Value of personal property None Personal indebted-

ness \$ None Any judgments ☐ or ☒  
 (yes) (no)

Oct 1st 1904 10 15  
 (Give date) (hour) (minute)  
Hall  
 (Reporter, sign full name)

Figure XVI—Blank for Obtaining Local Information



5th—If a salaried man, mechanic, laborer, etc. Who is his employer? What are his wages? Ascertained by reference to place of employment.

6th—What are his habits? General reputation as to sobriety, honesty, industry, etc. Ascertained by work of collecting general information from above mentioned sources.

The best blank that we have seen for this purpose is one used by a local company in one of the leading cities of the East. This is shown in Fig. XVI.

Where there are no local reporting agencies, we see no reason why the same methods can not be adopted by the merchants' associations. We know of some very successful local associations who employ a secretary to handle the records and impart the information to the members. It seems to us that in such an association the credit clearing house idea would be very successful and mutually profitable.

While the retailer requires no such elaborate system of filing and recording credit information as is used by the manufacturer or jobber, he should have some way of keeping a record of the information gained through the credit reporting agencies or from other sources.

Probably the most simple and satisfactory method for recording this information is with the card index. The manner of filing the cards is the same as has already been explained in this chapter. If the list of customers is small the cards can be handled in one of the small desk cabinets.

We show in Figs. XVII and XVIII the card forms used by two successful retail merchants. But little time is required in filling out these cards and the merchant who makes a practice of using one of these cards for each customer soon finds himself in possession of a vast amount of valuable information.

For the merchant in the country town whose customers are largely farmers, information of a different character is required. Even though the country mer-

Name <i>H. A. Andrews</i>		W. _____ or B. _____		Wife's Name <i>Mary B.</i>	
Address <i>714 Bruel St.</i>				Time Res. there <i>2 years</i>	
Employed by <i>St Ry Co</i>		Time Emp. there <i>4 yrs</i>		Occupation <i>Conductor</i>	
Kind	Amt.	Time	Sec.	Good for <i>\$ 20.00</i>	
Report <i>2/9 of Sabers - Industries - Honest - Employers say good</i>					
Remarks					
Date <i>Jan'y 25 '04.</i>		Property None		App. by <i>H. A.</i>	
S 2444-4					

Form XVII—System of Recording Information

LED. PAGE

434

NAME

*Fred Lewis*

ADDRESS

*114 Mechanic St*

CHANGE

EMPLOYMENT

*Blasamith - works Nolan & Co.*

CHANGE

REFERENCES

*Employer*

REPUTATION FOR PAYING

*Fair*

LIMIT

*\$1500*

CREDIT GRANTED BY

*Shaw*

Form XVIII

NAME		BUSINESS		POST OFFICE	
James Johnson		Farmer		Lee	
ACRES OWNED	SEC. 36P, ETC.	BLDG.	CONDITION, ETC.		
160	47.3	Home - 2 Bams	Good		
TOWN PROPERTY	LOT, BLOCK, ETC.	A. IMPROVED	INSURANCE		
		120	\$3500.00		
OTHER PROPERTY					
ASSESSED REALTY	IMPROVEMENTS	PERSONAL	TOTAL VALUATION		
16400.00	15000.00	11000.00	112500.00		
DEBTS AND LIENS					
OUR EST. NET	CHARACTER	HABITS	BUSINESS QUALIFICATIONS, ETC.		
11000.00	Excellent	Good	A-1		
ANTECEDENTS	PROSPECTS		PAY		
			Crompton		
REPORTED					

Figure XIX

chant may not keep a file of credit information he is usually shrewd and careful in granting credits. As a rule he knows more about the character, general reputation and earning power of his customers than does his city neighbor. But where many country merchants fail is in getting the right kind of information about his customers among the farmers.

The up-to-date merchant in the small town keeps posted on the markets, knows local crop conditions and who among the farmers take advantage of the condition of the market and sell at the right time. He occasionally goes out into the country on a tour of inspection. He learns what farmers conduct their farming operations as he would his business.

In a certain small town in the East is a firm of grocers who have built up an exceptionally large trade throughout the surrounding country. It is noticeable, also, that they have only the most desirable trade, and it is a subject of comment among their neighbors that they have no bad debts. One of the partners, when questioned about their success, said: "I go out into the country and call on these farmers. I talk with them about their crops, their stock, the condition of the market, the farm machinery that they are using or ought to use, and take an interest in their business generally. In making these visits I find out whether or not their buildings are kept in repair, their crops harvested at the right time, their stock properly housed, machinery properly cared for and many other points which tell for thrift. When I find a man who is always putting off making necessary repairs on his buildings, or who buys expensive implements only to leave them out in all kinds of weather, I am willing that his credit trade should go to my competitors."

As a further basis for determining credit, this merchant has collected certain information respecting nearly every man in the village and most of the farmers in the neighborhood. He has this information recorded on cards, the form of which is shown in Fig. XIX.

There is nothing strange about this man's success. It is not a question of luck, but on the contrary, there is evidence of good business sense. Merchants in the city, as well as those in the country, may gain some valuable pointers by a study of this man's methods.

### A SYSTEM FOR A BANK'S CREDIT DEPARTMENT.

**T**HAT the modern, up-to-date bank, doing a commercial business, should have a thoroughly organized and completely equipped credit department would seem to any systematic business man to be a most essential feature, as a safeguard for the loaning of the funds intrusted to a bank by its depositors, and yet, with comparatively few exceptions, the establishment of the credit department is of recent years and has been the result of costly experience.

Formerly what information of a credit nature a bank possessed was generally stowed away in the brain of its executive officer, or consisted of agency reports filed away in a more or less unsystematic manner, so that loans were not infrequently made upon mere hearsay, or upon the judgment of some disinterested party whose advice was often surmise. There was no attempt to systematically and periodically collect and dissect credit information and to so file it that it would be immediately available for the bank's officers and loan committee.

With the enormous growth of our cities, the immense expansion of our commerce, and the constant increase in the number of our merchants and manufacturers, brokers and contractors, capitalists and professional men, and the constant addition to the list of country banks, the necessity of a thoroughly equipped credit department in charge of a capable officer, well posted in the duties of a credit man, has been most emphatically felt. Today, therefore, the maintenance of this department, in a more or less efficient degree, is becoming the rule rather than the exception.

CORPORATION

## TO THE COMMERCIAL NATIONAL BANK OF DETROIT.

Name (Corporate style under check).

Business

Location

Branch

Office

For the purpose of procuring credit from time to time from you for our negotiable paper or otherwise, we hereby give you with the following statement and information which fully and truly sets forth our financial condition on the

day of

1900, which you may consider as continuing to be full and accurate unless notice of change is given you. We agree to notify you promptly of any change that materially reduces our pecuniary responsibility.

In consideration of the granting of such credit, we agree that if we at any time stop payment or become insolvent, or commit an act of bankruptcy, or if any of the representations made below prove to be untrue, or if we fail to notify you of any material change as before agreed: then and in either such case all our obligations held by you shall immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit account kept by us with you, we hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all our obligations held by you.

ASSETS		LIABILITIES	
Cash on Hand	1067.12	Bills Payable for Merchandise	13149.99
Cash in Bank	21322.90	Bills Payable negotiated to own Banks	40.00
Bills Receivable, all good, owing by Customers	448329.16	Bills Payable otherwise disposed of	20000
Less Bills Receivable, Discounted and Sold	448321.07	Due to Foreign Banks and Bankers	0
Balance of Bills Receivable, all good, on hand	1568.09	Open Accounts not due	93068.1
Bills and Accounts Receivable owing by Officers	60.00	Deposits of Money with us	0
Accounts Receivable, all good, owing by Customers	57256.00	Of which \$..... is on time	
Merchandise, finished (How valued)	39941.13	"..... is on Demand	
Merchandise, unfinished (How valued)	28952.44	Liens or encumbrances on Merchandise or other	0
Real Estate - belonging to Corporation		Assets, aside from Real Estate Mortgages	0
Market value	3100.000	Bonded Debt (When due)	0
* Less Mortgages	25000	Interest on Bonded Debt	0
Machinery and Fixtures	75000	Chattel Mortgages	0
Other Assets, and of what composed	90000	Other Liabilities and of what composed	0
Patented Ford Mill	9000	Total Liabilities	824568.7
Total	3288272.6	Capital	200000
		Surplus, including undivided profits	42371.69
		Total	324568.7

Contingent Liability	Upon Accommodation Endorsements, \$	Nothing	Upon Exchange of Paper, \$	Nothing
	Per Commission, \$	Nothing	Per Draft, \$	Nothing

Specify any of above assets or liabilities pledged on or secured by, collateral, appropriate endorsement.

\* Nothing except Ford Motor Co. \$5.00 per month for year

A Credit Department System of a National Bank

It goes without saying that the president or cashier of a large bank, with his multitudinous duties and the constant demand on his time, cannot take charge of the credit department. It is usually placed under the management of a junior officer or credit man of practical business experience, preferably one who has been through the mill in his own bank, and who is, therefore, familiar with the bank's customers, both individual and bank depositors.

He should be a man of ability, of unquestioned integrity, of wide acquaintance in the business and social world, of good judgment, keen insight into character, unprejudiced by personal likes or dislikes and who has the necessary persistency and liking for investigation. He, of course, should have a thorough knowledge of accounting and banking—in fact, it is quite necessary for him to have been at some time an accountant and a discount clerk. He should, above all, possess the faculty to absorb information of a credit nature, and to say little. What he learns of his customers' conditions and affairs comes to him in confidence and should be strictly so treated by him.

The credit man should carefully read the financial pages of the morning papers, noting business conditions in general and the daily quotations of stocks, bonds and grain, which form a large part of the collateral upon which a bank loans its funds. The trade and legal papers should be perused and items of judgments, assignments, petitions in bankruptcy, mortgages, etc., noted, particularly when any of the parties are on paper owned by the bank.

He should critically examine the loans maturing in the near future, that a renewal of a loan may be refused and the customer notified in advance in case of any evidence of weakness or unsatisfactory conditions which his investigations may have brought to light.

A detailed memorandum of the paper maturing each day should be prepared, showing the maker, indorser or



## MEMORANDA.

NO. 100-1000 - 1000 - 1000 - 1000

Authorized \$ \_\_\_\_\_ Subscribed \$ \_\_\_\_\_  
 CAPITAL: How paid in: Cash \$ \_\_\_\_\_ Other Property \$ \_\_\_\_\_  
 Description of Other Property, and how valued \_\_\_\_\_  
 Held by the Company as Treasury Stock \$ \_\_\_\_\_ State when \_\_\_\_\_ Per Value of Stock \$ \_\_\_\_\_  
 Incorporated in what State and under what General Law or Special Act \_\_\_\_\_  
 Date of Charter \_\_\_\_\_ Commenced Business \_\_\_\_\_  
 Are Stockholders liable beyond the amount of Stock subscribed? \_\_\_\_\_ If so, to what extent? \_\_\_\_\_  
 Regular time for taking inventory \_\_\_\_\_  
 Sales preceding year \_\_\_\_\_  
 Insurance carried on Merchandise \$ \_\_\_\_\_ On Real Estate \_\_\_\_\_  
 Give basis of this statement, if on actual inventory \_\_\_\_\_  
 state by when taken and date, \_\_\_\_\_  
 What amount of Accounts and Bills Receivable in this statement, not charged off, is past due, extended or reserved, \$ \_\_\_\_\_  
 Amount charged off for bad debts last fiscal year, \$ \_\_\_\_\_ Amount recovered during same period, \$ \_\_\_\_\_  
 Does your Corporation, or do your Officers, ever exchange notes, drafts or checks with any person, firm or corporation? \_\_\_\_\_  
 Does your Corporation, or do your Officers, ever indorse paper for the accommodation of any person, firm or corporation? \_\_\_\_\_  
 Are there any suits pending against your Corporation, and, if so, for what amount? \_\_\_\_\_  
 REAL ESTATE:  
 Location. (Give legal description and street name and number) \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Nature: \_\_\_\_\_  
 \_\_\_\_\_  
 In whose name is Title held? \_\_\_\_\_  
 What portion has been acquired through bad debts? \_\_\_\_\_  
 Give names of Banks where your accounts are kept? \_\_\_\_\_  
 NAME IN FULL. OFFICERS. ADDRESS.  
 President \_\_\_\_\_  
 Vice President \_\_\_\_\_  
 Secretary \_\_\_\_\_  
 Treasurer \_\_\_\_\_  
 DIRECTORS.  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Please sign Company's name here \_\_\_\_\_  
 By \_\_\_\_\_ (Title of Officer)  
 Address \_\_\_\_\_ Date signed \_\_\_\_\_

Prospective Customers' Statement for Credit Purposes

collateral, the amount due and whether it has already been renewed. A copy of this should be given each officer for reference and the original, used by the discount clerk or teller, can be footed at the end of the day and passed to the general book-keeper as a credit for "Home Bills Discounted."

Reports of the commercial agencies should be procured from time to time, covering the financial standing of firms who keep accounts with the bank, whether borrowers or not, and these should be filed, together with all other information regarding such firms, in a systematic manner, that they may be at the service of the bank's officers at a moment's notice. The credit man should carefully peruse these reports and thoroughly post himself as to his customers' ratings and general business reputation. On out of town paper the opinions of bankers and mercantile houses with whom the borrower does business should be sought and filed for reference.

The average monthly balance book should be studied, for in extending a line of credit to a bank's customers, not only the responsibility of the borrower but the average balance kept should enter into the consideration of the extent of the credit granted.

The credit man should, at least once a year, obtain a detailed statement from each of the bank's borrowers properly signed by an officer or member of the firm. These statements should be carefully analyzed and compared with the previous statement on file, and any unfavorable change in the condition at once investigated.

To ascertain the maximum line of credit a bank should extend to a customer, the credit man should consider only the quick assets, eliminating from the statement such assets as patents, good will, contracts, advertising and a large percentage of machinery and fixtures. In addition to the cash on hand and in bank, he should estimate what proportion of the accounts and bills receivable are good and what the machinery, merchandise, furniture and fixtures would bring at a forced sale, de-

# 19- HISTORY OF ACCOUNT - COMMERCIAL NATIONAL BANK, DETROIT.

NAME *John Doe Mfg Co. Detroit*  
 ADDRESS  
 BUSINESS *Cannery*

YEAR	AVERAGE BALANCE	MAXIMUM LOAN	STATEMENT DATE	NET WORTH	AGENCY REPORT	OFFICERS, MANAGERS, DIRECTORS
1902	12.00	22,000	Jan 1, 03	25,000	WPA - Paid	John Doe, Pres
1903	34.00	35,000	Jan 1, 03	218,000	WPA - Paid	John Doe, V. Pres
1904			Jan 1, 04	242,000	WPA - Paid	John Doe, Secy.
1905						John Doe, Treas.
1906						Ed Smith, Manager
1907						
1908						

REFERENCES

GUARANTORS

Jan. 1 1904 Line - increased to \$50,000, Amity bonds for like amount firm, signed by above officers as sureties

Jan. 10. 1904. Interviewed the Treasurer, who stated business was in satisfactory condition. Paid 7% dividend during 1903. besides charging off 10% of machinery, fixtures, good mill & patterns accounts

Opinions - Concern thought to be well managed; doing increasing and profitable business, and well spoken of in the trade. Prompt pay - disburse bills Account satisfactory in every way.

History of Account

ducting from these assets all accounts and bills payable and other liabilities. Many other considerations, of course, enter into the decision of what proportion of the net assets a bank may safely loan to the applicant for credit in determining his line. For instance, his standing in the community as a business man, and whether he has ever failed. If so, under what circumstances and what settlement was made with his creditors. His private life and habits should also have some bearing. A man's character and reputation for integrity are most valuable assets when seeking credit.

To quote Mr. Cannon, of the Fourth National Bank, New York:

"The component parts of credit are character, capacity and capital, but the greatest of these is character. Character counts continually for credit."

And as Rev. Wm. Carter, of Kansas City, said in a recent address before credit men:

"Conscience makes character, character makes confidence, confidence makes credit, credit makes business, and business makes the world."

The discounts of a commercial bank, as you all know, are of three kinds:

(1) Commercial or business paper, given by the purchaser of merchandise to the jobber or manufacturer, and considered the most desirable paper for banks, on account of the double liability of maker and indorser, the short time to run (generally sixty or ninety days), and as a rule the small amount of the notes.

The credit department should ascertain that the commercial paper is genuine, i. e., actually given in payment of merchandise bought (not straw or manufactured); that it is negotiable; that the makers have a fair rating and should not depend entirely on the indorsement of the bank's customer.

(2) Accommodation paper, notes made by a firm or corporation, sometimes indorsed but frequently no other liability than that of the maker. This form of paper

has largely increased in later years, due to the scarcity of bills receivable, manufacturers and jobbers carrying their customers in open accounts instead of taking their notes.

Accommodation paper should be taken from those only who have filed a detailed statement and whose responsibility has been established by a careful analysis of same. Banks should insist that at least once a year a customer's paper should be paid in full or materially reduced, that the bank may "see the color of its money." A steady line of credit furnished by a bank is nothing more than furnishing capital to the firm, which is not the business of a bank, but to loan money to buy merchandise to be manufactured into goods and sold.

(3) Collateral loans, notes signed by an individual or firm and secured by the assignment of stocks, bonds, mortgages, or such grain as wheat, corn and beans, or other unperishable produce, which have an active market value and are represented by elevator or warehouse receipts and secured by insurance policies.

Collateral loans should be carefully watched to see that margins do not run out. In a continually declining stock market such as we have had for the past year, this is a peculiarly trying time to the credit man, who must be prepared to call on his customer for additional margin or more collateral before his margin is exhausted. If the borrower fails to respond, he should sell his collateral at the point it expires, as frequently the borrower has no responsibility beyond the amount of collateral hypothecated with the bank.

He should see that merchandise in warehouses or elevators is kept fully insured and that the bank's interest appears in the policy. He must also keep posted on the daily fluctuations of this kind of collateral.

This is a valuable record, showing at a glance the items of interest regarding a borrower which a credit man should know: the average balance maintained and the maximum loan for the previous year, the net worth

as shown by his statement and the commercial agency ratings. It also shows the partners, or officers and directors, and any information of a credit nature, the line of credit granted, and the arrangement entered into between the bank and its customer. This data should be carefully compiled once a year and the results compared with the previous year. The comparison is often startling, not only to the bank but to the customer himself. Any unfavorable developments should at once be taken up with the latter, who will generally be grateful for calling attention to the fact and for any advice which a bank officer may have to suggest.

Many different systems are in use, but a convenient one is to place all information relating to the customer's credit standing, such as his statements, the commercial agency reports, the opinions of other banks or mercantile houses, the history of the account, etc., in a manilla folder. The name of the customer should be typewritten across the top of the folder and the latter filed alphabetically in drawers in a neat and compact file case, conveniently located for the immediate use of the credit man. In this way he can place instantly before the president or loan committee all information collected regarding the credit standing and account of the customer under consideration.

This is but a brief outline of the duties of the credit man and the methods employed in a department which has proven itself to be of the most valuable character to a successful bank.\*

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\*From THE BUSINESS MAN'S MAGAZINE, May, 1904.

## CHAPTER XXIII.

### The Collection Department.

**A**FTER the credit man has granted credit to a customer, and the goods have been shipped, his next concern is to see that the account is paid when due. Right here is one of the most severe tests of the credit man.

A credit man may be energetic, trustworthy and "long headed;" he may exercise keen judgment in granting or refusing credits, and then spoil it all by the way he handles collections. To be a successful collector, a man must first of all be an accomplished letter writer. We refer to the credit man as handling the collections for, even though the actual detail may be handled at another desk, the collection clerk is or should be his assistant and the credit man should control the correspondence carried on over the collection desk.

Owing to their natures the duties of the credit man confine him closely to the office and practically the only way he has of keeping in touch with the financial condition of the customers of the house is through correspondence. In no other branch of business work is diplomacy and discrimination more needed than in letter writing. Letters relative to credit and collections touch the customer in his most sensitive spot, and their probable effect should be most carefully considered.

The right kind of letters are then the very foundation of our system for handling collections. There must

be something more than a statement with a notice of draft printed on the bottom, or a "threat" made with a rubber stamp. Probably every reader of this book is familiar with the "quick collection" systems which consist of a series of rubber stamps commencing with the familiar "Please remit" and ending with "Unless this account is paid within 10 days suit will be brought." That kind of a system may have answered at some period with which we are not familiar, but it will not do for the present day.

The right kind of a letter will get the money much more quickly and surely than any number of printed notices. We do not mean to say that a personally dictated letter is necessary with every statement sent out. On the contrary, form letters can be used to quite as good advantage except in those cases where the account requires personal attention. But great care is necessary in the composition of form letters and the mistake should not be made of attempting to write one set of letters to be used in all cases.

The same kind of an appeal cannot be made where an account is for less than \$100 as for an account for \$500; while a letter of an entirely different tone should be written to a man who owes but a few dollars. But we started out in this chapter to talk about systematic methods of handling collections rather than to discuss the forms of the letters to be used.

If the matter of paying his bills is left entirely to the customer the chances are that he will forget—he will more likely put on you the burden of reminding him that your bill is due. It is necessary, therefore, that you have some system that will render the danger of your forgetting impossible or, at least, very improbable.

Many schemes have been introduced which have had for their object the accomplishment of this much to be desired result. Nearly all of them have certain points in their favor, but no one of them is adapted for use, under all conditions. To devise a perfect collection sys-



tem for any concern it is necessary to carefully consider existing conditions and make the system fit those conditions.

No matter what mechanical device is adopted, there are certain points to be considered in regard to handling the system. When an account is due a statement should be sent and we are confident that it will always pay to send a letter with the statement. A letter, even if it be a filled-in form letter, is bound to receive more careful attention than would be given a mere formal statement.

The following letter, which can be varied to suit the circumstances, is used by a prominent manufacturing concern in the middle west:

Dear Sir: We inclose a statement of account, and, although the amount is not large, we will appreciate it greatly if you will favor us with a prompt remittance.

We have anticipated a heavy demand during the next few months and have kept our factory running on full time that we might be in a position to fill all orders promptly when the busy season comes. We think our customers will appreciate this, but it has resulted in tying up quite a large amount of our capital in supplies.

We believe you will readily appreciate our position and we anticipate your early response.

A liberal order from you will be appreciated, and receive our most careful attention.

Thanking you in advance for your courtesy, we are,  
Sincerely Yours.

This letter is varied at different seasons of the year to meet existing conditions. Other forms are used to fit special cases such as very small accounts, but the tone is always the same and gives the recipient the feeling that this is a special request and not an ordinary one.

If this letter does not bring a response in ten days, a follow-up letter is sent. This letter reads as follows:

Dear Sir: On the ..... we sent you a statement of account, and counted on receiving a prompt response.

If there are any items in the statement which do not

agree with your records, will you not advise us at once, so that we may promptly adjust any discrepancy.

We assure you that your remittance will be much appreciated, and trust that you can accommodate us with your check on or before the .....

In sending your check, don't forget that an order will also be appreciated. Sincerely Yours.

When the next letter is sent, a somewhat more vigorous tone is adopted. This letter, which follows, is usually sent out a few days later than the date named in the last letter.

Dear Sir: We inclose a statement of your account. You will see that the amount is ..... days past due. We have twice called your attention to this account, but have not been favored with a reply.

We must collect our accounts promptly in order to meet pay rolls and heavy bills for materials. Our terms as you know are 30 days, and we cannot grant longer time except by special arrangement.

We hope that you will respond at once and shall expect to receive your check by return mail. Failing to receive a remittance, we will draw on you on the .....

By the way, our Mr. .... informs us that although he calls on you regularly you have not favored him with an order for some time. Can't you send us an order with your check? Sincerely Yours.

We have reproduced these letters, not because they are models in all respects, but because they show the various steps in following up an account, and they have produced results.

This firm uses but the three form letters, which are printed in imitation typewriter style, with names, addresses and dates filled in. Great care is used to get a ribbon that will exactly match in color. The match of the ribbon is of the greatest importance. We are all familiar with the form letter in which the color of the name and address varies several shades from that of

the body of the letter, and we know how often such letters reach the waste basket without being read.

After an account has passed the "draft" stage personal letters are demanded as there can hardly be any considerable number of cases which the same form will "fit."

After we have prepared our series of follow-up letters we must provide some method to insure against a customer receiving the wrong letter, or receiving any one of them at the wrong time; hence the "system."

Realizing the impossibility of covering in a single chapter all of the details of a collection system for all classes of business, we will describe some systems which are in use by representative concerns and which have come under the observation of the writer.

#### THE SYSTEM OF A LARGE MANUFACTURER.

One of the most simple collection systems that it has been the privilege of the writer to inspect is used by one of the very largest manufacturing concerns in the United States or in the world. In fact, the business of this concern extends to every civilized country.

The business is conducted through branches, each branch being expected to collect its own accounts, and the system used by each branch is exactly like the one used in the home office. We will, therefore, describe the system used for following up collections from the home office.

Each invoice is made in duplicate, the original going to the customer while the duplicate is retained in the office. All entries on the books are made from this duplicate invoice, which has previously been checked with the order and shipping records.

When the duplicate invoice is recorded on the books any special terms are stamped on the back so that those who handle it thereafter will be familiar with the terms of that particular sale. The duplicate invoice is then

sent to the collection department where it becomes the only record of the account.

This duplicate is filed in such a manner that it will come up for attention when the account is due. The file used is the simple part of the whole system. It consists of a case containing 60 pigeon holes. Each pigeon hole represents one day and they are numbered in two series, from one to 30, each series representing one month of 30 days. This number is provided for the reason that the time given on bills runs from 30 to 60 days, credit being granted in no case for a longer period than the latter. If the terms call for a longer or shorter period, a corresponding number of pigeon holes would be required.

The two series of pigeon holes are used alternately, the upper series representing January, the lower tier February, and then the upper series again for March and so on. This provides a distinct place for each month that answers the purpose just as well as 12 separate cases; one for every month in the year.

When the duplicate invoices reach the collection department, each is immediately filed in the pigeon hole representing the day on which it falls due. It then requires no further attention until it is time for the account to be paid.

Every morning the duplicate invoices filed in the pigeon hole representing that particular day are removed from the file. These are, of course, the invoices that fall due on that day. They are first compared with the ledgers to see whether or not the accounts have been paid. If they have, the duplicate invoice is destroyed, if not, it is returned to the collection department for attention.

Some action is taken at once; either a draft is made on the customer or a statement and letter sent him. In either event, the duplicate invoice is filed ahead from five to ten days according to the length of time required for a reply, and naturally comes up in that day's business.

If the invoice has not been paid by this time the

matter is taken up by correspondence. The entire matter is then taken out of the pigeon hole file. A carbon copy of the letter written is attached to the duplicate invoice. This correspondence is filed, under the name of the customer, in a vertical file which is indexed alphabetically. No other class of correspondence is placed in this file, it being kept for the exclusive use of the collection department, and placed convenient to the desk of the collection manager. When the account is finally settled, the correspondence is transferred to the general files where it may be readily found when wanted. This relieves the collection files of obsolete matter.

To insure each claim being followed up at the proper time the collection manager has arranged a tickler in the top drawer of his desk. This is divided into 31 compartments, representing the days of the month, and they are numbered consecutively. When the first letter is written the name of the customer and date of the letter are entered on a slip of paper cut the right size to fit the compartments in the desk drawer. This slip is then "filed ahead" in the tickler, a sufficient number of days to allow for a reply at which time it again comes up for attention. This enables the manager to keep in close touch with every claim.

This system fulfills the requirements of this concern admirably for several reasons:

First—The concern is so large that it can dictate its own terms.

Second—Every invoice is considered as a separate account and is expected to be paid on the exact date that it is due. The fact that another invoice is due three days later is not accepted from a customer as an excuse for delaying payment.

Third—The invoices, as a rule, contain but few items, making the use of pigeon hole case practical.

An objection is made that this system would not be practical in some lines owing to the large number of

items in the invoices. In such cases the duplicate invoices could not be used to advantage on account of their bulk; too large pigeon holes would be required to accommodate the accumulation of invoices and the invoice copies themselves could not be conveniently handled. But in many lines this system would be very practical. Its simplicity and the small amount of labor required in its operation are its most attractive features.

#### A SYSTEM FOR MONTHLY BALANCES.

In some manufacturing and jobbing lines where the purchases of a customer are, as a rule, comparatively infrequent, each invoice is regarded as a separate account and followed up for collection without regard to subsequent purchases by the same customer. But this is hardly satisfactory where the number of invoices of each customer for a single month is quite large.

This condition is especially prevalent in the case of the city customers of a jobbing house. In such lines as drugs and groceries it frequently happens that a single customer will make purchases almost daily. For accounts of this character it is customary to provide for monthly settlements making all bills due on the first of the next succeeding month and regarding payments made on the date as cash.

For all accounts not paid on the first of the month statements are sent out. It is a good plan to make these in duplicate, retaining one copy for the use of the collection department. This duplicate statement can then be treated exactly as would be the invoice where each is a separate account.

#### THE CARD SYSTEM.

One of the most convenient and satisfactory methods of bringing the collections to notice at the proper time is with the card index.

The most simple application of the card index for this purpose is to use a card for each invoice and file it according to the due date. Ordinary card drawers or

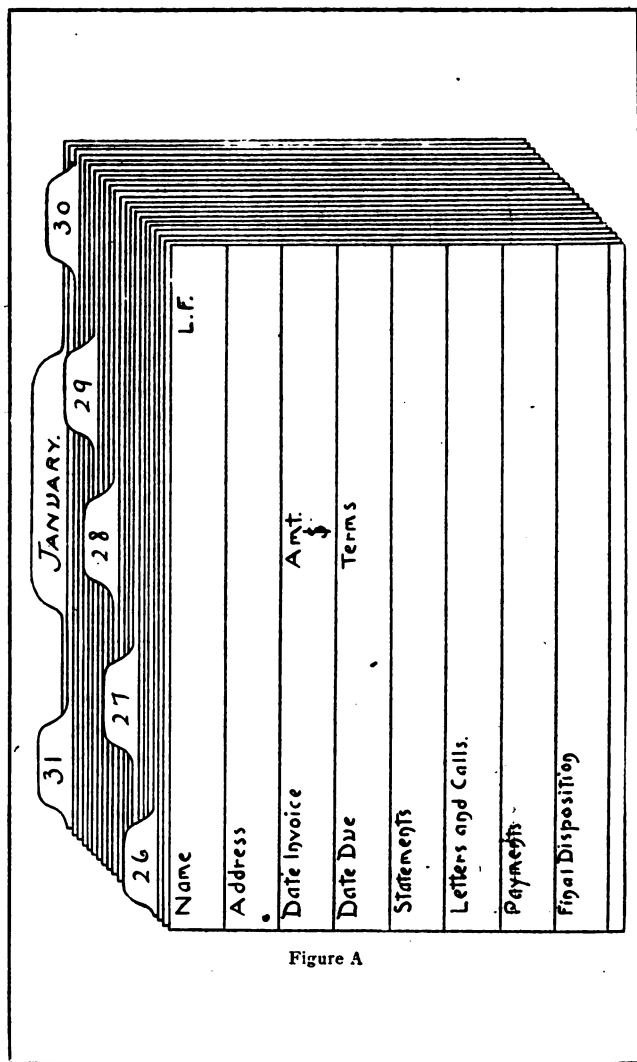


Figure A

trays are used and these are provided with monthly and daily indexes. The index consists of 12 guides or cards on which are printed the names of the months, and 31 numbered indexes to represent the days of the month. With such an arrangement the cards may be filed under the exact date on which the account is due, and they will come up for attention at the proper time.

The card should provide for the name and address of the customer, date and amount of invoice, terms and date due. Provision should also be made for a record of the date of statements, letters and calls, the dates of payments and final disposition of the account. Fig. A illustrates a simple form of card and the manner of filing.

This method gives very good satisfaction in cases where the number of accounts is small and the purchases of each customer somewhat infrequent. With a large number of accounts and frequent purchases, it has its drawbacks owing to the difficulty of finding a card except on the date that it comes up for attention. It is often necessary to refer to the collection card before the account is due and unless the date is known to the collection clerk, it becomes necessary to look through all of the cards for the month until the card wanted is found.

#### ALPHABETICAL TABS.

One way to overcome this difficulty is to use cards provided with alphabetical tabs or projections as shown by Fig. B. The projections are usually made one-twentieth the width of the card, each being printed with a different letter. This makes 20 subdivisions of the alphabet—about the number found in the ordinary alphabetical index. The letters start at the left end of the card, the first being A, the second B, etc. This brings all of a given letter in the same relative position and when the cards are placed in a card file, all tabs printed with the same letter must be in direct line from front to back.

Each name is entered on a card bearing an alpha-



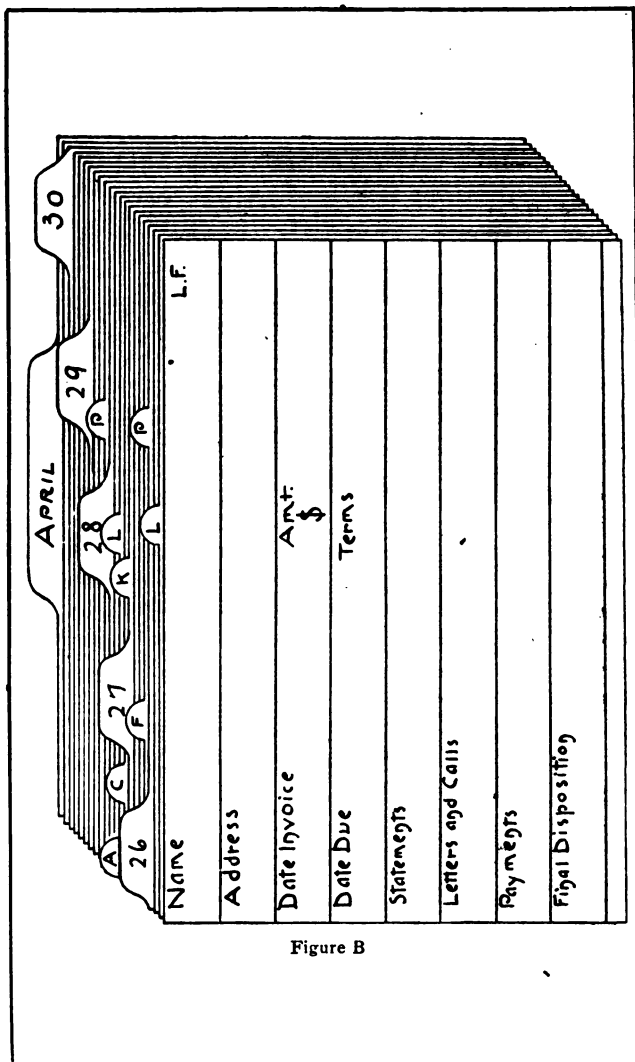


Figure B

A tab, and are filed by dates as shown by Fig. B. Alphabetical tab corresponding with the first letter in the name, i. e., Adams and Anderson are entered on cards with an

The advantage of these alphabetical tabs is that they make it possible to find any card by name, without reference to the date under which it is filed. If the card or cards of Jackson & Co. are wanted, they may be found by looking through the J tabs; these, as explained above, being in direct line, it is unnecessary to refer to any other.

The only disadvantage in the use of this method is that where there are a large number of accounts, and several cards for the same party are in the file, considerable time is required to find those wanted.

#### ADJUSTABLE TABS.

A later improvement in the card system which, in the opinion of the writer, overcomes the disadvantage of the systems above described, is the adjustable tab. This is small and made of metal which can be placed at any desired point on the card and removed at will. It can thus be used again and again.

When these adjustable tabs are used in a collection system, the cards should be without alphabetical tabs and instead along the upper edge of the card should be printed numbers from 1 to 31. These numbers represent the days of the month.

The tab is placed on the card immediately above the number representing the day on which the invoice falls due. To illustrate: If an invoice is dated the 15th and the goods are sold on 30 days' time, it will fall due on the 15th and the tab will be placed over No. 15 on the collection card. No matter how the cards may be filed, all tabs placed over No. 15 will be in direct line from front to back. On the 15th of the month, all cards bearing tabs in the position are removed from the file for attention, those representing paid invoices being destroyed. If the invoice has not been paid, the tab is sim-

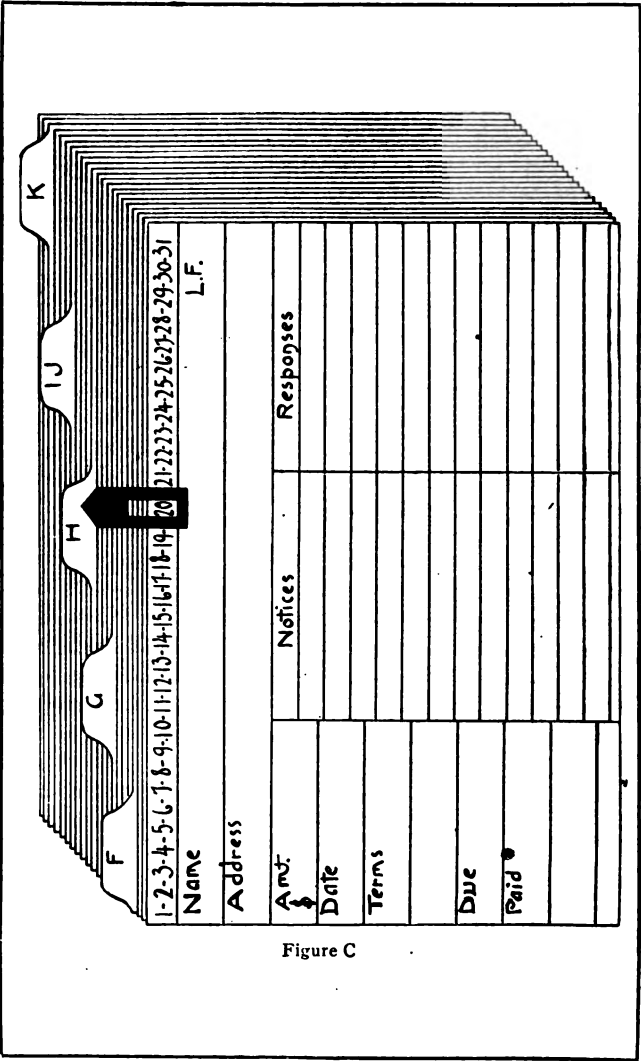


Figure C

ply moved forward to the next date on which the account should come up for attention and the card returned to the file.

One of the great advantages of this system is that it permits of an alphabetical arrangement of the cards. Where a customer makes frequent purchases, this brings the entire account together so that a statement may be made without referring to the ledgers. It also saves much time in checking the collection cards with the ledger, which should be done at frequent intervals. Each can be readily checked with the corresponding item on the ledger.

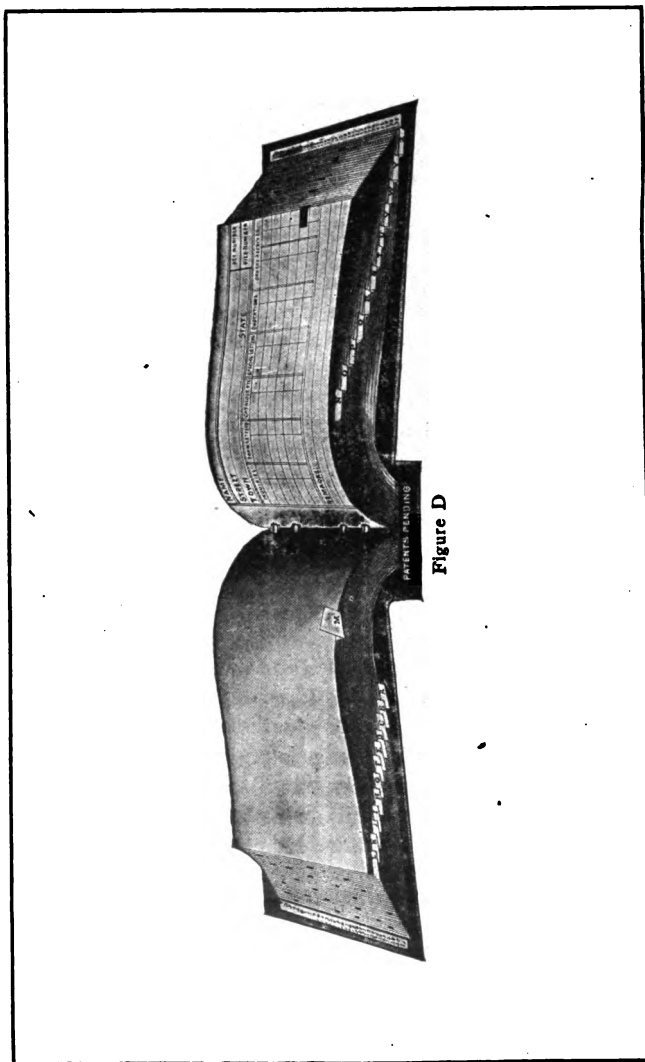
The adjustable tab, a very desirable form of card, and the manner of filing are shown by Fig. C.

In small establishments where the burden of looking after the collection falls on the book-keeper, the metal tabs to which we have referred can be used to good advantage in connection with the ledger.

The tabs are placed on the edge of the ledger sheet in the same way as with the card index, and their position on the sheet indicates the date on which the account should receive attention.

Fig. D shows a loose leaf book in which these tabs are used. On the inside of the cover, close to the edge so that it will not be hidden by the sheets, is pasted a strip of paper on which is printed the numbers 1-31, representing the days of the month. If an account is due or a draft is to be made on the 15th a tab is placed on the sheet directly over the Number 15 on the cover. These tabs make it a simple matter to refer each day to those accounts which need attention, without the necessity of going through all of the accounts in the ledger.

As these tabs are made in several colors, a plan which suggests itself to the writer is to use one color for accounts not due, another for past due accounts and still another when a draft should be made.



## INSTALMENT ACCOUNTS.

The collection of instalment accounts must of necessity be handled in a different manner from that adopted for other classes. These accounts invariably call for the payment of stated sums at stated intervals, and as a rule the payments are to be made to a collector. There must, therefore, be some system for bringing these accounts to light at the proper time.

There seems to be but little variation in the systems used by instalment houses. An inspection of the systems in use by the leading furniture and piano houses in a representative city shows practically the same system in all cases. The system which we give is used by a furniture house.

When furniture is sold to be paid for in instalments the usual form of instalment lease is made. This lease when folded is about  $3\frac{1}{2} \times 8$  inches in size—convenient for handling. On the back of the lease (which is the outside when folded) is printed the form shown in Fig. E. The lease is made in duplicate, a copy being given to the customer, while the original remains on file in the store. Each lease is numbered and the account is always known by this number.

When the lease is properly executed the original is at once filed according to the date on which the first payment is to be made. The file used in the case is a simple arrangement of pigeon holes. The company has had built a special fire proof safe containing 93 pigeon holes arranged in three sets, each set being numbered from 1 to 31. This company employs two regular collectors and divides the city into two districts—East and West—each of which is looked after by one collector, and one set of pigeon holes is assigned to each district. The third set is reserved for those customers who prefer to call at the store to make their payments.

Each morning the collectors are given the leases in that day's pigeon hole in their respective files. At night



Nº 3533

Harper  
+ Warden

	Received <u>9/10-1903</u>	N
	DEBITANT <u>Harper + Warden</u>	O
	Residence <u>Remidy's, Minn.</u>	P
C	PLAINTIFF <u>Ceres Milling Co.</u>	Q
D	Suit by <u>direct</u> <u>110%</u>	R
E	Bank <u>1st National</u>	S
F	Attorney <u>Fred W. Peterson</u>	T
G		U
H		V
I		W
J		X
K		Y
L		Z
M		

PAYMENTS.					
10/1	Coll.	60	Rec'd	54	Date 10/1
10/14	Coll.	50	Rec'd	45	Date 10/14
	Coll.		Rec'd		Date
	Coll.		Rec'd		Date
	Coll.		Rec'd		Date
	Coll.		Rec'd		Date
	Coll.		Rec'd		Date
	Coll.		Rec'd		Date

ask receipt sent draft 7/13 is debt 7/12 wrote  
 J debtor and wrote bank 7/20 draft returned  
 "unable to pay now - wrote client  
 K 7/22 cli sent statement and  
 came to attorney 7/25 att says unable  
 L to collect on demand advises suit  
 wrote attorney to sue and we will  
 M go good for costs 7/26 to attorney  
 10/15

Paid

A Blank for Showing Payment on Accounts used by a Collection Agency Affording Self-Indexing Method



these are returned with the payments indorsed, and if back calls are necessary on any of them, they are placed in the proper pigeon hole so that he will receive them within the next two or three days. Those on which payments are made are filed ahead to the next collection date whether it be in one month or one week.

The leases of the customers paying at the store are also removed from the file each morning and placed on the cashier's desk, so that payments may be indorsed as soon as made. If no payment is made, the lease is filed ahead one day, and this is repeated so that it comes out every day for a week. When two collection dates have passed without a payment the lease is placed in the collector's file, and it is his business to call on the customer and if possible secure the back payments.

The payments as made are entered on a special cash book giving name, lease number and amount. From here they are posted to the customer's account in a loose leaf ledger. The ledger is subdivided alphabetically and the accounts in each subdivision arranged in the order of the lease numbers, so that in posting, the account is quickly found without consulting an index. Each subdivision of the ledger is separately indexed, so that an account is quickly located should there be occasion to refer to it without having the lease number. On each ledger sheet is noted the day of the week or month on which payments are due, as well as the address, so that from this the lease is readily located in the files.

One quite common variation in this system which has much to commend it is the use of a card for the collector instead of having him carry the lease. This does away with the possibility of a lost lease and makes it easier to check the accounts of the collectors. Where cards are adopted a regular card file is used to good advantage for filing according to due dates. It is also a good plan to adopt different colors for weekly and monthly payments, both of which are met with in most instalment houses.

## CHAPTER XXIV.

### Some Characteristics of the Successful Credit Man.

**I**N the end the credit man, as another has said, finds that his is the ever-unfinished job in the house.

He has spent much of his time in unconscious preparation, in learning and knowing his house, its output, its customers and himself.

He is satisfied to work hard, to concentrate his mind on his one occupation in which all other departments to a certain extent converge.

He manages—he is the dictator, subject to but one revision. That being settled and admitted he gives his whole power, mind, spirit and body to protecting the capital and resources placed in his hands.

The average man, pushed into a corner by adverse circumstances or incapacity, soon finds refuge in the socialistic doctrine that “the world owes him a living anyhow,” and he does not propose to starve himself to pay his debts. In the last analysis, “self preservation is the first law of nature,” and we are prone to blame the credit man who permits a debtor to load himself beyond his capacity rather than blame the debtor for trying to get rid of some of it, even though the means may not be strictly moral. We maintain that the credit man too often shows a species of small reprisal that drives debtors to dishonest practices who would otherwise be slow but good.

One case comes to hand as this is written. A was a

grocer in an Alabama town, mainly agricultural in its support. The cotton crop failed one year and A was placed in the unfortunate position of owing an account of \$178.91 to a wholesale house in Duluth, his first and only dealings. The planters on whom he was depending had no money to pay their accounts, A's entire list of customers with trivial exceptions, were dependents on the cotton crop for ready money. He had drawn against his factors in Montgomery and New Orleans to the limit of their capacity, and he was now in the position of having a lot of perfectly good accounts, from the local standpoint, but no ready money. He wrote to the Duluth house. The curt reply was:

"We are sorry not to be able to grant you an extension on your account, and shall expect you to honor our draft on presentation." To which A replied, giving the exact state of affairs at length. The reply to this statement was a draft.

The draft was returned unpaid. A notification of the amount going to a collection agency came in a few days. A, being well and favorably known in the town, felt much depressed over the circumstances, and took his troubles to his attorney, who said: "Let them sue—we'll defend, and there's not a jury in this county that will give them judgment."

The account was sued.

The jury did give judgment for the defendant.

Seven months afterward the account was paid in full with interest.

The credit man in Duluth did not know his customer, but operated on the fool notion that because a man couldn't pay his debts he was to be pounded into paying them.

This is not an exceptional case, for there are lots of credit men to whom the science of credits is a sealed book, who operate much as the Canadian Frenchman who was uncertain about the safety of his money in a bank: "If



you got my money I don't want it; if you haven't my money I want it."

The credit man who is not familiar with the methods and practices of certain communities and lines is in constant jeopardy of his ignorance. A good risk to a man in the cattle country for instance would be the very essence of speculation to a dry goods credit man in New York. A Texas cattle man once applied to Russell Sage for a loan of \$100,000 on 20,000 head of cattle he owned in the Pan Handle. Sage replied: "Why don't you ask me for a loan on a shoal of shad off Sandy Hook?"

Yet this very class of credit is considered gilt edged by the bankers of Iowa, Missouri, Kansas and Nebraska.

The intuitive credit man, however, will instinctively grope for fixed standards of judgment. One man will assure you that the man who walks on his toes is a sneak and a cheat; another that the man who wears "Burnsides" as a certain style of whiskers are called, is a hypocrite. Other reputable and clever men will give you experiences by the hour to demonstrate that they can determine a man's character by the shape of his mouth, others will tell you that every man of decisive character wears his heels over, from planting his feet down hard.

We remember to have had a most interesting and diverting argument with a St. Louis credit man on a trip from that city to New Orleans, not many years ago, who maintained with much fervor that blondes were not as honest as brunettes.

Such credit men are an actual menace to a concern. Such men make of credit a cheap commodity, easily purchased by a few figures on paper, and a carefully educated manner of frankness. The thief's ability to look one in the eye while he makes statements impossible of proof, and naturally unsubstantial, is a part of his stock in trade. Yet there are some good men handling credits who believe that no dishonest man can tell a lie without stuttering, and no hypocrite can look you in the eye, and that all thieves have a hang dog air and in other words,

the mark of Cain can be read by the passerby, though a fool.

It seems hardly necessary to comment on the value of these "intuitive" judgments based on such variable values, as the twist of a man's nose, the cut of his coat, his manner of walking, or the shape of his ears and the color of his hair.

If the credit man would strive to live in the very center of activity instead of surrounding himself with an impenetrable mantle of judicial austerity and silence, he would more often come in contact with facts that would be of momentous value to his critical analysis. He would understand that the "instinct" and the "intuitions" of successful credit men are nothing but the automatic expression of logical processes based on a systematically arranged basis of facts and figures.

Community feeling must be reckoned with.

We have already referred to the debtor states. For a number of years the South, owing to the paralyzing effects of the Rebellion, was in the debtor columns. A glance at the laws of these states will, even now, show how the debtor was protected by exemptions and processes from the creditor who went to law.

In talking to a Southern merchant on one occasion the writer had occasion to make some more or less sage reflections upon the attitude of the debtor states towards capital. While not repeating his conversation verbatim, the merchant said:

"You say that the man who grants me credit virtually enters into partnership with me. Very true: he enters into partnership with me, putting in a certain amount of goods at a certain additional profit to himself. He hopes that I will be able to make a profit in order that I may be able to realize sufficient over and above my expenses in order that I may pay him his bill. That is his risk. Before he sells the goods he has the privilege of turning down my order. In other words, he does not have to enter partnership unless he feels like it.

"He trades with me at his own risk.

"In the make-up of the price of the goods to me he adds a certain percentage for insuring the credit; in other words, he figures out, if he loses one per cent of his gross business in bad debts he adds that one per cent to the selling price of his goods which I am supposed to pay. He makes me insure my own credit. Suppose I fail to realize promptly, within the time agreed, owing to conditions over which I have no control, for my customers are money poor also, and I am forced to defer payments. Bang! down comes my 'partner' on me and wants to sell me out hide, boot, and baggage, to get his money out of the business. I have learned to protect myself against such methods, and I frequently pass a portion of the accumulation of years to my wife and children, to protect them from want. My 'partner' sets up a hue and cry that I ought to sign everything over to him. I say I have no more right to rob my family for the benefit of my 'partner' than that partner would rob himself of his profits in order that I might maintain myself in my business.

"We men in the debtor states who have lived a long time without ready money, have learned to take care of each other, with the consequence that we have a certain community feeling in this treatment of debts. We go on honor, and not on law, and the creditor who goes entirely by law, will find sooner or later, that we have the power to change the law. We believe in giving the 'under dog' a chance, and for that reason you will find the laws in these states in favor of the debtor. We believe that the debtor should have just as much of a chance to pay his bill as the creditor has to collect it. The reason that there has been so many debtor protecting laws passed lies in the foolish exercise of legal remedies by creditors, who as long as a man had money to pay his bills paid little attention to proper collection of them, but just as soon as he hadn't the ready money to pay they wanted it all at once. If the banks worked on such foolish principles we would have a panic every week."

However sophistical this reasoning may be, it, to a large extent, covers the chronic debtor's position.

The credit man doing business in a wide territory must understand local conditions, and defend himself against them by a certain increase in the percentage of indemnity added to the selling price.

The obligation of a debtor to pay his bill is one that requires no argument.

The equal obligation of the creditor to assist the honest debtor to realize his best intentions likewise requires no argument.

Business is not a war to the knife, except as between competitors, and the credit man of mature experience and breadth of view understands that he must co-operate with the honest man of good intentions, and not make the cast-iron rules covering the dishonest man apply without extenuation to the other sort.

Let us now turn to a hasty consideration of some of the characteristics of the successful credit man, in the main the outgrowth of the discussion of his duties as set forth in the preceding pages.

1. *The successful credit man is always thorough.*

When in doubt he says "No," when he is thoroughly convinced he says "Yes" cheerfully and is prepared to back it up. He never knows everything, his hunger for knowledge is never appeased. Nothing is worthless. He is not afraid to go afield once in a while, and learn for himself. He has as much horror of being a "dead one" as any of his young salesmen. As he learns he practices, as he practices he masters, and as a child learns to play the piano, by and by he can "play it with his eyes shut," he can recognize certain conditions and without conscious operation of his reason, appraise and tabulate it "good" or "bad" in a second. He will not miscall this "intuition," for he knows the road by which he arrived at the conclusion.

2. *He wants facts not surmises and guesses.*

The successful credit man has facts on which he

bases his reasons for granting credit. He no more thinks of granting credit on the guesses of the average credit report than he thinks of handing his firm's money to the first man who asks for it. He wants to know:

- (a) The character of the management.
- (b) The character of the business.
- (c) What the competition is.
- (d) How the concern is organized to do business.
- (e) What are their business methods?
- (f) Do they pay their bills?
- (g) What are they worth?
- (h) What do other people think of them?

He isn't satisfied with a report of "It is said"—(who says so? he asks). "It is generally thought"—(some names of the thinkers, if you please). "Their reputation for prompt pay"—(how do you know?). "They are considered worth"—(where are the figures?) and so on to the end of the catechism. He must have facts, for his reason feeds on facts, for he is dealing in realities, and unconsciously the processes of his normal mind repudiates the reasonableness of trading a reality for a "guess."

3. *He has faith in humanity.*

Yes, he has, he believes that the majority of the human family is honest, that it is honorable, that it is grateful for kindness and courtesy. He couldn't help believing it if he would and he wouldn't if he could. The facts of life stare him in the face. He sees that but one per cent of his credits go wrong, and he sees that but a fraction of that one per cent are either dishonest, dishonorable or ungrateful. The law of average convinces him, and the normal love of humanity that makes him the man he is, forces him to the conclusion. He looks at life with calm eyes and level brows. His faith is grounded on the experience of a thousand years: his knowledge on the average struck by the usage of his day, he has nothing to do but to sail the plain marked course. He clings to that faith in humanity, for that faith makes



him certain, it is the very bedrock of his science, his success or his failure.

4. *He is always receptive to new ideas.*

When trade stands still he sees breakers ahead. He knows the very foundation of healthy credit is healthy business. He lives on the changes in the world, through the progress and movement of things. He must know what is going on in the world, not only the little world of his own daily life and immediate environment, but he must know what is going on among those who are partners with him in businesses scattered from Dan to Beer-sheba. A new method of doing something, in office, in the field, in the shops, anywhere in the organization, interests him, for it may hurt or it may help the business he is carrying. His salesmen are his eyes, they see a great deal, but he weighs and values. He knows them all, their optimism and their pessimism and he helps them, and enlists their co-operation so that they go after the best in a territory and take the rest only as pressure of output requires.

5. *He is a gentleman.*

He has consideration for others and he never forgets that he is a gentleman. He expects hard problems—he would be disappointed if he were not sometimes misunderstood and if that misunderstanding did not sometimes reach the head of the firm, but he has sufficient faith in his facts to make his decisions stand. He tries to help even those to whom he cannot grant credit—he tries to sell them goods just the same. He impresses a man with friendliness and when that is imposed upon he knows how to place the man in his right place without losing a jot of his dignity. He never feels his part, because he has too level a head. He knows there are other credit men in the world with as much horse sense and as much experience as he has. He knows that the house could get along without him, for he is sane and normal and a gentleman. He is not a prig—his observation has taught him that many men can do many things that many other men can-

not do. He sits as no judge on men, for he knows that many bad credit risks are lovable characters.

Because he is a gentleman he is frank and fearless. He sees no advantage, however, in using a club just because the job is unpleasant. When he writes a dunning letter to a delinquent debtor he is himself, earnest, forceful, suggestive, but he hits the nail on the head. Probably he has learned how to write a letter through practice and observation. He gets more candid as the days pass by that delinquent debtor, and by and by the time comes when the grip hardens. The credit man knows the facts about his customer's business and he knows where to hit and he hits a blow that tells, for he is strong and he knows where to hit. Yet he is the gentleman.

6. *He is systematic.*

He has a place for everything and everything in that place. His passion for facts also makes him abhor guessing about where information is when he wants it.

He considers it bad management to "keep your business in your head." He wants his department so organized that the facts and figures that are the basis of his judgment may be instantly accessible to himself or to anyone else. The rules he lays down for others he holds fast for himself.

Finally, he cheerfully admits that with all his facts and figures, his cool judgment and his experience, there is somewhere a cool, slick knave who will some day give him another experience and an opportunity to add another set of facts and figures to his collection, but he will not throw his facts and figures to the dogs and turn trance medium for all that.

7. *He is a sane, normal man.*

He rides no hobbies—for he has no faith in excess of any kind. He is as careful of the man with too much capital as he is of the man with too little. His sole aim is to travel the *via media*, the middle road. He wants nothing to do with the chronic failure or the flashy success. The great bulk of business in this country is car-

ried on by average men of average success, and he is content to realize the opportunity such a condition offers him, for with them he can count a sure success. His viewpoint is one of liquidation, for he understands that every concern has periods of storm and stress, his own among them, and he wants to have his own concern in shape to do quick realizing when the time comes without too great a disturbance of its trade relations. His eye is thus always on tomorrow. He is willing that competitors should have all the speculative risks he can refuse. He sees clearly that it is by such methods that he can cripple competition. He sees further that the sane judgment is to take all the good sales that come to him, and to throw about each one the ever-watchful system that guards against the insidious disease of over-confidence which leads to failures, disaster and panics.

8. *He is sensitive to financial tendencies.*

He watches the money market, local and national, for he knows that when money tightens his risks will feel it and collections will show the result. As he sees confidence expanding and values rising, expenditures increasing, he looks more carefully at the statements. He increases his discounting of their figures. He knows that the reaction may not come for months or even a year or more, but he knows it will come. He exacts a larger cash reserve as a prelude to further credit; he commences to push a little harder those delinquent accounts. When the crash comes he knows his people—the weak ones he tries to strengthen by a judicious extension and encourages them to solidify their indebtedness in a few hands. He calls it Emergency Credit, and he gets all of it he can. As the panic cannot be universal, he pushes business in undisturbed districts. If his business is purely local he calls on his own credit to help his customers. Such a credit man makes credit for his house.

Ideal, you say? Certainly.

Impractical? No, not at all. It is done every day in the successful concerns of this country.

In each line, from the small retailer in a country store to the giant doing a world business, the same rules apply, and through them the smallest have grown to healthy and vigorous maturity.

## CHAPTER XXV.

### Conclusions.

**W**E have gone far and said much. If our discussion has led us anywhere it seems that it must have led us to the conclusion that the safest, sanest basis for commercial credit is the property basis.

That the safest, sanest manner in which to judge the credit value of that property is the scientific method of dealing with facts and figures rather than depending on personal intuition, impressions and the variations of personal feelings.

In concluding these pages it may not be amiss to quote a few facts and figures to give further substance to the reasonableness of our observations and suggestions.

During the past several years a well-known mercantile agency has issued for each twelve months a statistical synopsis of the causes of failure. Without inquiring into the scientific value of the statistics as expressing the entire commercial history of the period, we may accept them as a straw showing the tendencies. Under the heading, "Failures Due to the Faults of Those Failing" we find a series of headings that we shall group as peculiarly susceptible of scientific treatment:

First comes "Incompetence," on which we may certainly obtain facts: "Inexperience," which as readily yields vital facts by investigation: "Lack of Capital," which the statement will show us, after proper analysis: "Unwise Granting of Credits" will appear on short an-

# Causes of Failures In 1903

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## FAILURES DUE TO THE FAULTS OF THOSE FAILING



- |   |   |          |
|---|---|----------|
| 1 | Incompetence, irrespective of other causes, | 6 4-10%  |
| 2 | Inexperience without other incompetence,    | 20 5-10% |
| 3 | Lack of Capital,                            | 32 9-10% |
| 4 | Unwise Granting of Credits,                 | 3 4-10%  |
| 5 | Speculating outside of Regular Business,    | 1%       |
| 6 | Neglect of Business Due to Doubtful Habits, | 2 1-8%   |
| 7 | Personal Extravagance,                      | 9-10%    |
| 8 | Fraudulent Disposition of Property,         | 4 4-10%  |



## FAILURES NOT DUE TO THE FAULT OF THOSE FAILING



- |    |   |          |
|----|---|----------|
| 9  | Specific Conditions, as Disaster, Fire,<br>Flood, Etc., Etc., | 16 8-10% |
| 10 | Failure of Others, apparently solvent<br>debtors,             | 2 8-10%  |
| 11 | Undue Competition,  | 2 5-10%  |

alysis of a few facts in a little talk: "Speculation," to be gleaned from the statement of outside investments all entered, or a few well-directed inquiries at large will work wonders.

As matters that might be hidden from the casual investigator or the man of average shrewdness, especially if the other points were favorable:

Personal Extravagance.

Doubtful Habits.

Fraudulent Disposition of Property.

A glance at the table on another page will show that the class of failures whose causes are capable of being treated in a scientific manner is outside the average credit man's investigations, yet are responsible for 61.2 per cent of the total number of failures. Under the second heading, with which it is conceivable, as there may be no "facts" obtainable for guidance, the intuitive credit man might have the advantage, there falls but 16.7 per cent of the total number of failures, slightly over one-fourth the number of those about which the credit man *can* know certainties and facts. Turning to the remaining general group, i. e., "Failures not Due to the Fault of Those Failing," we find the scientific test may be applied here to a degree.

"Specific Conditions" may be guarded against through judiciously placed insurance.

"Undue Competition" is a fact that may be seen and understood.

The remaining element, "Failure of Others" is the only one not falling within our survey as susceptible of scientific treatment, although our data on the Granting of Credits will give us a satisfactory basis on which to base a guess that even the most rabid believer in intuition will be likely to admit to be as good as his own.

A glance at the table will now show the scientific method in the position of being able to cope with knowable quantities to the extent of 80.5 per cent of the total failures, while the intuitive credit man has but 19.5 per

cent over which he can reasonably expect to have exclusive control.

Yet we find that, notwithstanding the fact that 80.5 per cent of all failures are due to causes that can be diagnosed and seen from afar, the vast majority of credit men choose to concern themselves with quack experiments in psychic diagnosis of the diseases responsible for only 19.5 per cent of the total number of failures. Baldly and bluntly, the credit man expects the debtor to hand him 80.5 per cent of facts, and he expects to guess the remainder. The debtor, as we have shown, through lack of education, incapacity or pure cussedness may be unable to do so. The credit man turns to his ability as a guesser and throws the whole 100 per cent into the balance and guesses on the strength of his knowledge that is admittedly of no value in four-fifths of the total number of cases.

Probably one of the most interesting evidences of the attempt on the part of credit men to arrive at a standard of judgment was an experiment tried on a small scale by Dr. A. D. Bellamy, of The Florence Wagon Works of Florence, Alabama. Dr. Bellamy asked ten of the banks and twenty of the representative firms of the Southwest ten leading questions, viz.:

- (1) What line of credit do you consider safe for a customer of average moral character, having no rating in the commercial agencies?
- (2) If rated \$2,000.00 to \$3,000.00?
- (3) If rated \$20,000.00 to \$30,000.00?
- (4) If rated \$50,000.00 to \$75,000.00?
- (5) In judging credits do you depend most on the money or moral aspect of the risk?
- (6) What amount do you set as a limit for any one customer to owe you, regardless of rating?
- (7) If the report of your salesman and that of the mercantile agencies are at variance which do you depend upon most in accepting a risk?
- (8) Which one of the mercantile agencies do you consider most reliable?
- (9) Have you a fixed rule in judging credits, based on percentages of purchaser's liabilities to his assets, or otherwise? If so, please state briefly.
- (10) Do you believe the basis of credits has been reduced to an exact science?

Seven banks and thirteen firms responded, as shown here:



## QUESTION NO. 1.

- 1 \$50.00.
- 1 Governed by ability and surroundings.
- 3 \$25.00 to \$500.00, depending upon kind of business and surroundings.
- 1 None.
- 2 No answer or no definite amount stated.
- 1 \$200.00. Believe in keeping both buying and paying.
- 1 \$150.00.
- 1 Do not consider party safe as moral risk if has no capital.
- 1 Have sold parties in this class from \$50.00 to \$25,000, but knew something of moral character.
- 1 \$100.00.

## QUESTION NO. 2.

- 1 \$150.00.
- 5 \$125.00 to \$300.00.
- 1 \$600.00 if credit rating good.
- 1 \$1,000.00.
- 1 30 per cent of their capital rating.
- 2 No definite amount stated; depends upon surroundings.
- 1 From "cash" to \$500.00 owing to credit, whether limited, fair or good.
- 1 Believe there is no fixed rule, we pay no attention to ratings.

## QUESTION NO. 3.

- 2 \$500.00 to \$1,000.00.
- 6 \$1,500.00 to \$5,000.00.
- 1 30 per cent of their capital rating.
- 3 Same as sixth item in No. 2.
- 1 \$2,000.00 to \$2,500.00.

## QUESTION NO. 4.

- 1 \$1,000.00.
- 1 For what they need.
- 2 \$10,000.00.
- 3 \$5,000.00.
- 1 30 per cent of their capital rating.
- 1 \$2,000.00 to \$3,000.00.
- 3 No definite amount stated. Depends upon surroundings.
- 1 \$3,000.00 to \$4,000.00.

## QUESTION NO. 5.

- 4 Moral.
- 3 Consider them jointly.
- 1 Mostly on the financial, but consider them both.
- 1 Money.
- 1 Moral first, money second.
- 1 Moral more in small business, but not so careful when financial responsibility is larger.
- 1 Character 60 per cent, money 40 per cent.
- 1 Everything, particularly the indebtedness in proportion to assets—past record, prospects, etc.

## QUESTION NO. 6.

- 1 No answer.
- 1 Do not disregard the rating.
- 1 \$10,000.00 with a few exceptions.
- 1 \$5,000.00.
- 1 10 to 15 per cent.
- 1 \$2,500.00.
- 1 Whatever the business justifies regardless of the amount.
- 1 Seldom over \$3,500.00.
- 3 We have no limit, depends upon conditions.
- 2 About \$5,000.00.

## QUESTION NO. 7.

- 4 Agency.
- 4 Salesmen if experienced, otherwise agency.

- 1 Agency if no special information.
- 1 Salesmen.
- 2 Salesman first, agency second, consider no one report final.
- 1 Pay little attention to salesmen's reports, few understand credits.

## QUESTION NO. 8.

- 1 Consider Dun and Bradstreet as equal.
- 2 Bradstreet.
- 1 The reliability varies in different territory.
- 3 Dun & Co.
- 1 In our state Dun's.
- 1 The Credit Clearing House.
- 1 Find them all necessary.
- 2 Impossible to answer, account of varying ability of reporters, occasionally both wrong.
- 1 Use only Dun and Bradstreet, both good.

## QUESTION NO. 9.

- 1 No answer.
- 7 No fixed rule, depends upon surroundings.
- 1 There can be no fixed rule on account of varied surroundings, otherwise credit men could be machine made.
- 1 Invariably have property statement direct from the customer, making it a basis in connection with surroundings.
- 1 We judge from reports, ledger records from other firms and personal contact.
- 2 Each case is treated on its own merits. Moral hazard, financial responsibility, location, cash or credits, expenses, etc., considered.

## QUESTION NO. 10.

- 1 No answer.
- 5 No.
- 2 No, but there are signs of its reaching such a state.
- 1 No, not until the National Association of Credit Men have established or will agree to co-operate with an interchange bureau.
- 1 No, but conditions are improved and co-operation among merchants reveal indisputable facts on buyer's credit.
- 1 No, and it will be a good long time before it is, as there are about 1,000 conditions to contend with which should be overcome.
- 1 No, a credit man considers present conditions, has no check on fire, death or the elements, and cannot tell what the harvest will be. Has to wrestle frequently with statements that are misleading.
- 1 As credit man for 25 years for a business grown from half a million to over one and a half million, have lost on an average less than 1 per cent per year. This is about as near as science, hard work and cool judgment will accomplish.

We are forced to accept this, not as conclusive proof that there can be no scientific basis for credit, but rather that commercial credit practice is in many instances a matter of ignorance and blind luck and that many credit men are the toys of forces they do not suspect of an existence.

As the credit man leaves the purely personal element behind him, and familiarizes himself with actualities and conditions, he lessens his chances of error in a rapidly increasing ratio.

We find, too, that we may retain a faith in humanity without blushing for our old-fashioned ideas.

People are not so immoral as they are incompetent—they are not so dishonest as they are the victims of adverse circumstance—they are not so inexperienced as they are optimistic and venturesome, and endeavor to do too much with too little.

Applying these averages to one's own cases is to tread a safer road than to depend entirely on the psychic self and to endeavor from sub-consciousness to conjure up a guide to infallible judgments.

We must face these facts:

As long as there is business there will be credit.

There will never be a time when all merchants will sell for cash and buy for cash. To imagine such a condition is to imagine a total reversal of known economics, and to bring human beings back to the state of beatitude before the Fall.

We do not need money so much as we need a better and surer way of arriving at a safe credit valuation.

We need less faith and more facts.

We need to esteem our favors more highly and our personal infallibility less. We need to make our debtors esteem our favors by being more jealous of admitting them to our list of customers, and to know them when we do admit them. We do not need so many laws to make people honest as we need more care in making it impossible for the dishonest man to steal our profits. We must learn this lesson ourselves and not ask a complaisant government to pass laws to protect us from the consequences of our own greed, parsimony or folly.

If the science of credit were a thing that might be demonstrated, i. e., proven beyond the shadow of a doubt, the present hypothesis would be rendered unnecessary. If the foregoing pages have not proven that there is something deeper, something more sane, something more solid and real in commercial credits, than the mere casual and fickle guesswork of the intuitive and the psychic, then

there is little use of this effort. If, however, the ultimate test of all credit is property, real marketable goods; if normal credit bears a certain fixed relation to the operation of the law of supply and demand; if this relation is the foundation on which all credit rests, this book should prove that there is a science worthy of the closest study of the credit man, no matter how incompetent may be the hands that have penned its pages.

## SUGGESTIONS FOR COLLATERAL READING

**CREDIT**, by J. Laurence Laughlin, Professor and Head of the Department of Political Economy, University of Chicago. (Pamphlet, 1902.)

**THE THEORY OF CREDIT**, by H. D. McLeod, 3 vols. (1894-97.)

**CREDITS, COLLECTIONS AND THEIR MANAGEMENT**, by H. D. Preston. (1897; out of print.)

**LOMBARD STREET**, a Description of the Money Market, by Walter Bagehot. Published by Charles Scribner's Sons, 1897, New York.

**MONEY AND CREDIT**, by Wilbur Aldrich. Grafton Press, 1904.

**LOAN CREDIT IN MODERN BUSINESS**, by Thorstein B. Veblin. Published by the University of Chicago, 1908.

**LECTURES ON COMMERCE**, edited by Henry Rand Hatfield. The University of Chicago Press, Chicago, 1904.

### TEXT-BOOK SUGGESTIONS.

The principal work on the law of contracts, is that by Dr. Parsons which may be had at nearly every law publishing house, which consists of three volumes and costs \$18. A shorter work, which is excellent, is by Anson, one volume, and costs \$3.50. On the subject of chattel mortgages Jones is the best, one volume \$6. On conveyancing, Brewster is the latest, one volume \$5. On mortgages Jones, two volumes, \$12. On sales Mechem, two volumes, \$12. One may also gain much valuable information by studying the statutes of the several states. An excellent epitome of these which, however, is not up to date, is Stimpson's American Statute of Law, two volumes, \$10. Valuable Law Digests for the laws of the several states are published in most of the Legal Directories, Hubbel, Sharp & Allman's and Martindale's. This last is perhaps the best.

## TABLE OF CONTENTS

*The Editor is Responsible for Such Chapters as are not Specifically Credited to Other Sources.*

### Chapter I.

Before Reading This Book.....	7
-------------------------------	---

#### A FEW THINGS A HISTORY OF CREDIT TEACHES.

Barter and Its Limitations—The Babylonian and Phoenician Merchant's and Their Power—Early Bankers and Banking—The Struggle for a Common Standard of Value.....	9
--	---

### Chapter II.

#### WHAT IS CREDIT.

The Confusion of Definitions—Laughlin's Definition Acceptable—How Gold Comes to be the World's Denominator—On What Normal Credit Must Rest.....	18
---	----

### Chapter III.

#### THE CHARACTER OF THE BUSINESS.

Why the Character of the Business Matters—Patents—Schemes—Manufacturing—Jobbing—Retail—Farming .....	27
--	----

### Chapter IV.

#### THE ORGANIZATION OF THE BUSINESS.

Proper and Effective Organization Necessary to Protection of Credit—Team Work—The Go-as-you-Please Organization—The Selling, Financial and Manufacturing Departments.....	37
---	----

### Chapter V.

#### BUSINESS METHODS AFFORDING CREDIT DATA.

The Significance of Methods—Reflecting Personality and Principles—The Trifles that Show the Man—The Inventory—Correspondence—Statements—Dating Ahead.....	43
---	----

### Chapter VI.

#### PERSONAL CHARACTER OF THE MANAGEMENT.

Private Morals and Public Morals—The Heart of the Man—The Character of the Management the Character of the Business—No Money and Ability—Will He Pay?—Miracles, Their Place in Credit.....	49
--	----

### Chapter VII.

#### COMPETITION'S EFFECTS ON CREDIT RISKS.

What is Competition?—The Regulation of Competition by Law—Sentiment in Business—Overcoming Competition—Some Competition Methods—Anecdotes.....	57
--	----

## Chapter VIII. )

## CREDIT-INDEMNITY INSURANCE.

- Introduction by the Editor—The Value of Insurance of Credits,  
by *W. G. Schweppe, Manager Banking Department, American  
Credit-Indemnity Insurance Company*—The Drawbacks of Credit-  
Indemnity Insurance, by *J. H. Jeffries, Vice-President National  
Credit Men's Association*..... 65

## Chapter IX.

## THE CREDIT STATEMENT. ✓

- The Value—McRae on Statements—The Reflection of the Business  
and the Reflection of Desires—Ideal Statements Illustrated and  
Analyzed.  
By *W. W. Thorne and the Editor*..... 78

## Chapter X. )

✓ THE CREDIT MAN AS AUDITOR: IMPERFECT ACCOUNT-  
ING SYSTEMS AMONG RETAILERS.

- Rules for Auditing—Errors of Principle—Errors of Omission—  
Errors of Fraud—Depreciation—Some Systems for Retailers.  
By *W. W. Thorne and the Editor*..... 87

## Chapter XI.

## CAPITAL AND RESOURCES. )

- How Corporations Estimate Capital and Resources—Typical  
Examples—"Working Capital"—Bonus—Notes Discounted—  
Overdrafts.  
By *W. W. Thorne*..... 97

## Chapter XII.

## COST OF PRODUCTION. )

- Self-Deception as to Cost—Analysis of Poor Systems—Fictitious  
Profits—Cost of Raw Material—Cost of Labor—Diffused Ex-  
pense—Patterns.  
By *H. L. Hall*..... 101

## Chapter XIII.

## INSTALMENT ACCOUNTS. )

- The Difference—The Tendency of Such Trade to Over-Earnings of  
Purchaser—System for Recording Payments.  
By *H. L. Hall*..... 106

## Chapter XIV.

## THE SALESMAN AND THE CREDIT MAN. )

- What the Salesman is Paid to Do—The Man Who "Owns" His  
Trade—The Special Favor—The Value of a Fixed Policy—At  
Sword's Points—Personalities—The Prize Method..... 112

**Chapter XV.****GETTING THE MONEY.**

Voluntary Payments—Personal Collections—Collections by Draft—  
Direct Remittances on Request—Personality in Letters—Sales-  
men as Collectors—Promptness.

*By H. L. Hall*..... 120

**Chapter XVI.****THE SLOW-PAY CUSTOMER**

The Indifference to Terms—Anxious to Buy, Slow to Pay—Poor  
Reasons Danger Signs—The "Good as Gold" Slow Pay Man—  
Insuring the Interest on Slow Pay.

*By H. L. Hall*..... 133

**Chapter XVII.****CREDIT STATEMENTS IN LAW.**

Introductory by the Editor—Design of the Discussion—Foundation  
of Legal Liability—Making Statements—Statements to Vendor  
and to Commercial Agencies—The Remedy of Action.

*By Colin Campbell, Esq.*..... 141

**Chapter XVIII.****CONTRACTS: ORAL, WRITTEN, EXPRESSED AND IMPLIED.**

Defining a Contract—Roman Code, English Common Law—Kind  
of People Who May Make Contracts—The Parts of the Con-  
tract.

*By Colin Campbell, Esq.*..... 156

**Chapter XIX.****BOOKS OF ACCOUNT IN LAW.**

The Legal Book of Account—The State Laws—Original Entries—  
etc., etc.

*By Colin Campbell, Esq.*..... 171

**Chapter XX.****GOING TO LAW.**

The Commercial Lawyer—Compromise the Victor—European Com-  
mercial Law .....

186

**Chapter XXI.****CREDIT ORGANIZATIONS.**

Introductory by the Editor—The Mercantile Agency, by H. G.  
Helmhold, Secretary Central Trust & Safe Deposit Company,  
Philadelphia—Some Defects of the Commercial Agency Service,  
by E. F. Morgan, President, Atlanta Credit Men's Association—  
Credit-Exchange Bureaus and Their Work.

*By the Editor* ..... 193



## Chapter XXII.

## CREDIT INFORMATION SYSTEMS.

A Credit System for a Bank, by *H. H. Sanger, Assistant Cashier, Commercial National Bank, Detroit, Michigan.* Methods of Taking Care of Information—Cards—Loose-leaf Systems—Getting Information—Salesmen as Collectors of Information.

By *James B. Griffith*..... 220

## Chapter XXIII.

## SYSTEMS FOR THE COLLECTION DEPARTMENT.

✓ The Better System—The Manufacturer and Jobber's Systems—System for Monthly Balances—Card Systems.

By *James B. Griffith*..... 266

## CHAPTER XXIV.

## THE SUCCESSFUL CREDIT MAN.

✓ His Work—His Duties—His Characteristics—Thoroughness—Wants Facts—Faith—Receptive—A Gentleman—Systematic—Sane—Sensitive .....

285

## Chapter XXV.

## CONCLUSIONS.

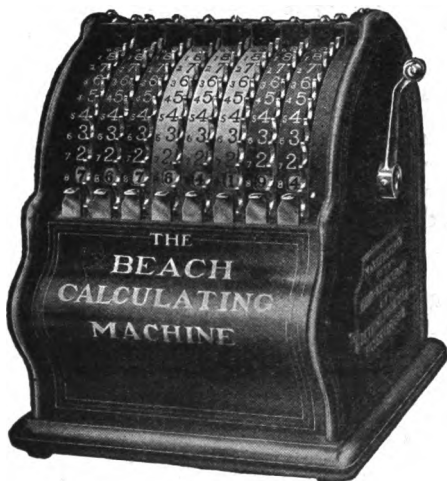
What We Have Done—Discussion of Statistics—An Interesting Experiment—Conclusion .....

296



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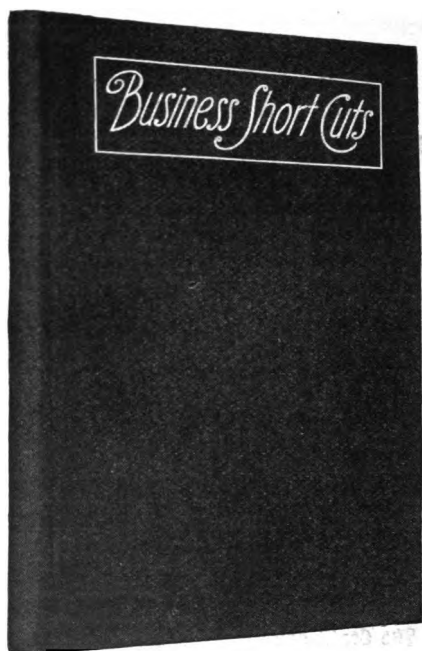
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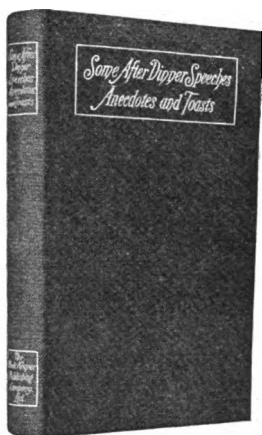
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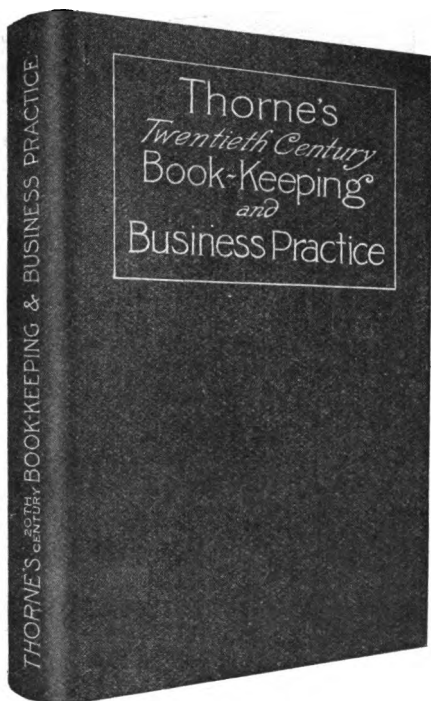
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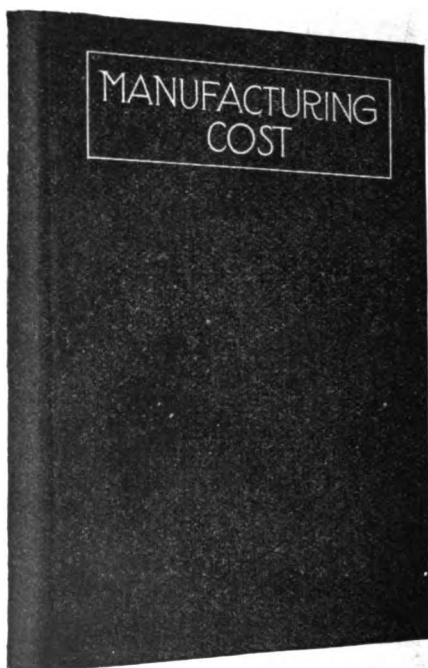
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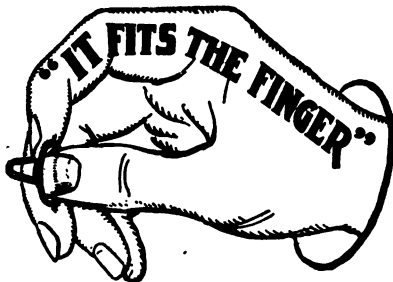
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